FDIC

2006

Corporate Annual Performance Plan

FEDERAL DEPOSIT INSURANCE CORPORATION

2006 Annual Performance Plan

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CHAIRMAN'S MESSAGE

I am pleased to present the Federal Deposit Insurance Corporation's (FDIC's) 2006 Annual Performance Plan. The FDIC plays a key role in ensuring the stability of and public confidence in the nation's financial system by insuring deposits, identifying and addressing risks, supervising depository institutions, resolving failed institutions, and managing receiverships.

In carrying out its mission, the Corporation will emphasize the following in 2006:

- Implementing deposit insurance reform legislation enacted by Congress in early 2006.
- Continuing to prepare for the implementation of the Basel II Capital Accord.
- Continuing to protect our national security by ensuring institutional compliance with the Bank Secrecy Act (BSA) and anti-money laundering and counter-financing of terrorism requirements.
- Continuing to expand the FDIC's leadership role on consumer protection issues.

Internally, the Corporation will focus on the following:

- Continued implementation of the Corporate Employee Program to create a flexible permanent workforce capable of responding to changing workload requirements.
- Implementation of other new employee learning and development initiatives.
- Development and implementation of a succession management strategy to ensure that we have staff capable of assuming key management and technical positions if the employees occupying those positions leave the corporation.
- Enhancement of our corporate privacy program.
- Completion of planning for a new claims administration system.

This document outlines specific 2006 performance targets and indicators for each of our three major business lines. I invite you to read further about the FDIC's planned initiatives for 2006.

Martin J. Gruenberg
Acting Chairman

Mission, Vision and Values

Mission The Federal Deposit Insurance Corporation (FDIC) is an independent agency created by the Congress that maintains stability and public confidence in the nation's financial system by insuring deposits, examining and supervising financial institutions, and managing receiverships.

Vision The FDIC is a leader in developing and implementing sound public policies, identifying and addressing new and existing risks in the nation's financial system, and effectively and efficiently carrying out its insurance, supervisory, and receivership management responsibilities.

Values The FDIC and its employees have a long and continuing tradition of distinguished public service. Six core values guide FDIC employees as they strive to fulfill the Corporation's mission and vision:

Integrity. FDIC employees adhere to the highest ethical standards in the performance of their duties and responsibilities.

Competence. The FDIC maintains a highly skilled, dedicated, and diverse workforce.

Teamwork. FDIC employees work cooperatively with one another and with employees in other regulatory agencies to accomplish the Corporation's mission.

Effectiveness. The FDIC responds quickly and successfully to identified risks in insured financial institutions and in the broader financial system.

Financial Stewardship. The FDIC acts as a responsible fiduciary, consistently operating in an efficient and cost-effective manner on behalf of insured financial institutions and other stakeholders.

Fairness. The FDIC treats all employees, insured financial institutions, and other stakeholders with impartiality and mutual respect.

Program Descriptions and Annual Performance Goals

INSURANCE

SUPERVISION

RECEIVERSHIP MANAGEMENT

INSURANCE PROGRAM

The FDIC insures bank and savings association deposits to help ensure stability and public confidence in the U.S. financial system. The deposit insurance funds must remain viable so that adequate funds are available to protect insured depositors if an institution fails. When an insured institution fails, the FDIC is responsible for ensuring that the institution's customers have timely access to their insured deposits.

Congress enacted deposit insurance reform legislation in early 2006 that gives the FDIC greater discretion to manage the size of the combined deposit insurance fund and allows the FDIC to better price deposit insurance for risk. In particular, it will grant credits to institutions that helped capitalize the funds in the early and mid-1990s, allow the FDIC to assess all institutions regardless of the level of the reserve ratio, and mandate dividends from the fund when it reaches certain levels. One of the Corporation's major 2006 priorities will be the implementation of that legislation. The FDIC maintains sufficient deposit insurance fund balances by collecting risk-based insurance premiums from insured depository institutions and by pursuing prudent fund investment strategies.

In 2006, the FDIC will continue to devote significant attention and resources to the identification and analysis of new and emerging risks. As insurer, the FDIC continually evaluates how changes in the economy, the financial markets, the banking system, and individual financial institutions affect the adequacy and the viability of the deposit insurance funds. The FDIC communicates its findings to the industry and the other federal banking agencies[1] and state authorities through formal and informal channels, including the publication of written analysis of banking industry developments. In recent years, the FDIC has placed increased emphasis on the dissemination of high-quality research and analysis through its Center for Financial Research (CFR) and other initiatives.

The FDIC's Risk Analysis Center (RAC) plays a key role in assembling information and ensuring enterprise-wide focus on emerging risks to the funds. In addition, communication and coordination with the other bank regulatory agencies are a top priority. As the insurer, the FDIC, by statute, has special examination authority for insurance purposes for all insured depository institutions. If significant emerging risks or other serious concerns are identified for an insured depository institution not primarily supervised by the FDIC, the FDIC and the institution's primary federal supervisor[2] work together to address them.

The FDIC exercises its insurance responsibilities by approving or denying applications by any prospective depository institution for federal deposit insurance. Before granting access to the federal deposit insurance system, the FDIC evaluates an applicant's potential risk to the funds.

[1] The other federal banking agencies, along with the FDIC, include: the Board of Governors of the Federal Reserve System (FRB), the Office of the Comptroller of the Currency (OCC), and the Office of Thrift Supervision (OTS).
[2] The institution's charter and its Federal Reserve System membership status determine which federal banking agency is the "primary federal supervisor" of the particular institution.

It assesses the adequacy of an applicant's capital, financial history and condition, and its future earnings potential, as well as the general character of its management. The FDIC also considers the convenience and needs of the community to be served and gathers input from other regulatory authorities.

The FDIC strives to increase global awareness and knowledge of deposit insurance by issuing guidance and conducting and disseminating research on international deposit insurance issues. The FDIC promotes financial stability by exercising leadership in deposit insurance outreach efforts for insured institutions, the other federal and international banking agencies, and other industry experts. The FDIC receives a large number of inquiries on deposit insurance from a wide audience, which includes representatives from foreign governments, deposit insurance systems, and regulatory authorities. The FDIC provides technical assistance, meets with foreign visitors, and provides failed institution resolution and asset liquidation expertise to other countries.

The FDIC seeks to increase public awareness and understanding of the deposit insurance rules and coverage. It reviews whether insured depository institutions make accurate disclosures about uninsured products. The FDIC provides information to depositors and financial institution staff about the application of deposit insurance rules and responds to deposit insurance questions received from the public and the banking industry through the FDIC Call Center, the Internet and regular mail. The FDIC also provides tools to assist financial institution employees in interpreting the rules for deposit insurance coverage.

The table below depicts the strategic goal, strategic objectives, and annual performance goals for the Insurance Program.

Strategic Goal	Strategic Objectives	Annual Performance Goals
Insured depositors are protected from loss without recourse to taxpayer funding.	Customers of failed insured depository institutions have timely access to insured funds and financial services.	Respond promptly to all financial institution closings and emerging issues.
	The FDIC promptly identifies and responds to potential risks to the insurance funds.	Identify and address risks to the insurance funds.
		Disseminate data and analyses on issues and risks affecting the financial services industry to bankers, supervisors, the public and other stakeholders.
	Deposit insurance funds and system remain viable.	Maintain and improve the deposit insurance system.
		Provide educational information to insured depository institutions and their customers to help them understand the rules for determining the amount of insurance coverage on deposit accounts.

Strategic Goal Insured depositors are protected from loss without recourse to taxpayer funding.

Strategic Objective Customers of failed insured depository institutions have timely access to insured funds and financial services.

Annual Performance Goal Respond promptly to financial institution closings and emerging issues.

Indicator and Targets

1. Number of business days after institution failure that depositors have access to insured funds either through transfer of deposits to successor insured depository institution or depositor payout
   - *If the failure occurs on a Friday, the target is one business day.*
   - *If the failure occurs on any other day of the week, the target is two business days.*

2. Enhancement of FDIC capabilities to make a deposit insurance determination for a large bank failure
   - *Review comments received from the Advance Notice of Proposed Rulemaking on Large-Bank Deposit Insurance Determination Modernization, consult with stakeholders, and make a determination on how to proceed.*

Means and Strategies *Operational Processes (initiatives and strategies)*: When an insured institution is identified as a potential failure, the FDIC prepares a plan to handle the possible resolution and closing of the institution. The FDIC begins the resolution process with an assessment of the assets and liabilities of the institution. The FDIC then develops an information package that is used as a marketing tool and is provided to all interested potential assuming institutions. The FDIC solicits proposals from approved bidders to find a buyer for the deposit franchise.

If the federal or state supervisor chooses to close the institution, the FDIC takes control of the failed institution and determines which deposits are insured. Once the FDIC is appointed receiver, it initiates the closing process for the failed institution and provides the insured depositors with access to their accounts in one or two business days. The FDIC works with the assuming institution so that the insured deposit accounts are transferred to it as soon as possible. If no assuming institution is found during the resolution process, the FDIC disburses to customers of the failed institution the insured amount in each account category.

The FDIC will continue to review and enhance, where necessary, existing plans, processes, and systems and to develop new ones in response to emerging risks related to evolving banking industry practices and technologies.

Human Resources (staffing and training): Based on workload fluctuations, staffing requirements will continually be assessed to meet the needs of the FDIC in carrying out its receivership management responsibilities. The FDIC has established policies and procedures to allow for the temporary assignment of resources to meet workload demands and mission responsibilities. The Corporation began implementation of its new Corporate Employee Program (CEP) in 2005. This new program will expand the FDIC's knowledge base in the areas of resolutions and receiverships and will ensure a continual level of readiness among the workforce by promoting cross-divisional mobility through continuous training and rotational work assignments. When fully implemented, the CEP will be the foundation of a flexible workforce that is capable of responding quickly to unexpected events or changing workload priorities.

In addition, the FDIC has developed strategies to fully leverage staff resources from throughout the Corporation in resolving failed financial institutions. These strategies will be tested through simulations and employed in future resolutions.

Information Technology: Technology is critical to improving the efficiency of deposit insurance determinations and payments. The FDIC is in the midst of a multi-year effort to redesign and automate its deposit insurance claims and payment processes. This project will provide an integrated solution that meets the Corporation's current and future deposit insurance determination needs and will be based on adaptable technology that is compatible with industry standards. By the end of 2006, the Corporation hopes to initiate a new investment project to develop and implement a new Claims Administration System.

Verification and Validation

The timeliness of payments to depositors can be verified through the press release announcing the resolution and/or the U.S. Department of the Treasury's Financial Management System, the entity that manages the FDIC's account established for wiring funds to the assuming institution. In the case of a payout, the timeliness of payments to depositors can be verified by the Federal Home Loan Bank of Chicago, the financial institution at which the FDIC maintains its deposit payout account.

Strategic Goal Insured depositors are protected from loss without recourse to taxpayer funding.

Strategic Objective The FDIC promptly identifies and responds to potential risks to the insurance funds.

Annual Performance Goal Identify and address risks to the insurance funds.

Indicators and Targets

1. Insurance risks posed by large insured depository institutions
   - *Assess the insurance risks in 100 percent of large insured depository institutions and adopt appropriate strategies.*

2. Concerns referred for examination or other action
   - *Identify and follow up on 100 percent of issues raised through offsite review and analysis.*

Operational Processes (initiatives and strategies): The stability of the banking system is maintained through proactively identifying risks to the deposit insurance funds. To perform this critical function, the FDIC continually tracks economic trends and market changes in order to assess the potential impact on insured financial institutions. Risk analysis information enables the FDIC to more effectively maintain and improve models that monitor industry conditions and individual institution risks.

The FDIC established a Risk Analysis Center (RAC) under the direction and oversight of the FDIC's National Risk Committee (NRC) to formalize an interdivisional approach to monitoring and analyzing risks to the deposit insurance funds and to the banking system. The RAC administers an integrated corporate risk analysis process that utilizes information obtained from a wide variety of sources, including examinations and other institutional reviews, as well as internal and external research and analysis. As part of this process, the RAC coordinates the work of the NRC and six Regional Risk Committees, resulting in an enhanced understanding of industry conditions and emerging risks, and allowing for dissemination of this information to FDIC managers and staff, other regulators, bankers and the public. The RAC provides a platform for interdivisional projects that address identified risks that impact the Corporation.

The FDIC has increased its focus on the largest financial institutions that pose the greatest risk to the insurance funds by assigning "dedicated examiners" to six of the largest financial institutions. These institutions have a combined $4.5 trillion in total assets, accounting for approximately 42 percent of the industry's total assets. Dedicated examiners use supervisory information, internal institution information, and external sources of information to evaluate risks and assign an FDIC risk rating for each of the six institutions. The dedicated examiners work collaboratively with each institution's primary federal regulator and other FDIC offices to evaluate the condition of large banks and help identify systemic risks.

In addition to the Dedicated Examiner Program, the FDIC has established a new operational unit that establishes protocols for monitoring the largest insured financial institutions and provides technical support related to complex examination activities. Regional case managers also perform continuous analyses of all large banking organizations through the Large Insured Depository Institution (LIDI) program. This program provides in-depth supervisory analyses for all financial institutions with over $25 billion in total assets (and selected institutions with total assets between $3 billion and $25 billion). Case managers maintain contact with the primary federal regulator, review bank risk management information from a variety of sources, and in some instances attend meetings with bank management at the invitation of the primary federal regulator.

In recognition of the increasing complexity and concentration of risk exposure in large insured institutions, and to prepare for the implementation of Basel II, the FDIC augmented its staff in 2005 by hiring personnel with requisite knowledge and skill sets necessary to analyze large bank operations. Information from the Shared National Credit (SNC) program is also integrated into the analysis of emerging risks at large banks. This interagency program provides for annual reviews of certain syndicated loans which total over $20 million in which three or more regulated entities participate. Loan commitments covered by the program totaled nearly $1.6 trillion in 2005. Using SNC information, the FDIC staff identifies industry sector exposures posing a high degree of risk for large banks and analyzes underwriting trends and industry performance trends. This information is used in developing risk cases and quarterly risk assessments.

Human Resources (staffing and training): The FDIC has increased the number of economists, financial analysts, and others who focus on risks within the banking industry. It has also incorporated risk-focused examination training in its examination schools.

Information Technology: To facilitate improved off-site analysis, the FDIC implemented in 2005 the final phase of the Virtual Supervisory Information on the Net (ViSION). One of the ViSION modules provides a top-down view of individual banking organizations. In addition, it continues to explore mechanisms for secure electronic communication with state banking departments and will continue to explore options with other federal banking agencies for facilitating the exchange of confidential supervisory information.

Verification and Validation Potentially heightened insurance risks identified through the Dedicated Examiner, LIDI, or SNC programs will be reported to FDIC senior executives, who will determine an appropriate course of action. Follow-up activity will be tracked through established reporting processes.

Strategic Goal	Insured depositors are protected from loss without recourse to taxpayer funding.
Strategic Objective	The FDIC promptly identifies and responds to potential risks to the insurance funds.
Annual Performance Goal	Disseminate data and analyses on issues and risks affecting the financial services industry to bankers, supervisors, the public, and other stakeholders.
Indicator and Target	Scope and timeliness of information dissemination on identified or potential issues and risks.

- *Results of research and analyses are disseminated in a timely manner through regular publications, ad hoc reports and other means.*
- *Industry outreach activities are undertaken to inform bankers and other stakeholders about current trends, concerns and other available FDIC resources.*

Operational Processes (initiatives and strategies): The FDIC supports stability and public confidence in the financial system by identifying emerging risks to the system. To perform this critical function, the FDIC continually tracks economic trends and market changes in order to assess the potential impact on insured financial institutions. Risk analysis information enables the FDIC to more effectively maintain and improve processes to monitor industry conditions and individual institution risks.

The FDIC maintains a vigorous research and publications program on issues and topics of importance to the banking industry. Much of this research is conducted in collaboration with the academic community through the Center for Financial Research (CFR), which was established in 2004. Research findings are disseminated through the CFR working papers, articles in professional journals, and presentations at conferences and other events. The FDIC also disseminates information and analyses on industry risks through periodic reports, publications (e.g., the FDIC *Quarterly Banking Profile* and *FDIC Outlook*), Financial Institution Letters (FILs), and participation in industry events and other outreach activities. In 2006, the FDIC will continue to implement improvements to its publications program based on a review of that program conducted previously.

Human Resources (staffing and training): The FDIC has increased the number of economists, financial analysts, and others who focus on risks within the banking industry. It has also expanded the participation of outside scholars in its risk analysis program and has incorporated risk-focused examination training in its examination schools. In 2006, the FDIC will increase the number of staff with quantitative risk-analysis and financial risk-modeling capabilities.

Information Technology: The use of new, open data exchange standards (known as "eXtensible Business Reporting Language," or XBRL) will provide faster access to financial institution information for all users of the data – financial institutions, banking regulators and the public.

Verification and Validation Analyses are included in regular publications or as ad hoc reports on a timely basis. Industry outreach activities aimed at the banking community and industry trade groups are undertaken to discuss current trends and concerns and to inform bankers about available FDIC resources. Progress in meeting this annual performance goal will be tracked through established reporting processes.

Strategic Goal Insured depositors are protected from loss without recourse to taxpayer funding.

Strategic Objective Deposit insurance funds and system remain viable.

Annual Performance Goal Maintain and improve the deposit insurance system.

Indicators and Targets

1. Implementation of deposit insurance reform
   - *Develop and implement an assessment credit and dividends system and a new deposit insurance pricing system.*
   - *Implement deposit insurance reform legislation in accordance with statutorily prescribed time frames.*

2. Loss reserves
   - *Enhance the effectiveness of the reserving methodology by applying sophisticated analytical techniques to review variances between projected losses and actual losses, and by adjusting the methodology accordingly.*

3. Fund adequacy
   - *Set assessment rates to maintain the insurance fund reserve ratio between 1.15 and 1.50 percent of estimated insured deposits.*

Means and Strategies *Operational Processes (initiatives and strategies):* The FDIC's Financial Risk Committee (FRC) develops quarterly failure projections and loss estimates to establish contingent loss reserves for the insurance funds. The FRC will keep pace with changing techniques and methodologies used to analyze the nature of risk exposure, including scenario analysis and stress testing. Models that forecast failures and failure resolution costs will be maintained and enhanced, as necessary. The FRC will regularly review adverse events to identify lessons or implications for monitoring and addressing risks. Supervisory and other information about large institutions will be incorporated into the FRC's recommendations regarding insurance-related business decisions. The FRC will consult with the other federal banking agencies in its deliberations.

Based on an analysis of projected failed bank assets and other pertinent information, the FRC recommends to the Chief Financial Officer the level of the contingent loss reserve for deposit insurance funds as determined by the FDIC's reserving methodology. FDIC staff also uses the information provided by the FRC to project the level of assessment revenue necessary to maintain the designated reserve ratio.

Human Resources (staffing and training): Additional staff will be recruited in 2006 to administer and perform the analytical work associated with the deposit insurance pricing, dividend, and credit and rebate models that will be used in conjunction with the implementation of deposit insurance reform. In addition, the FDIC will continue to add staff to its banking and economic research program and to expand its ties to the academic community in order to broaden the information and analytical perspectives available to the Corporation in its stewardship of the insurance funds. Outside scholars will be actively engaged in producing relevant research through relationships and activities sponsored by the CFR.

Information Technology: The FDIC has identified 19 systems, including the Risk-Related Premium System (RRPS), that will be modified to support the implementation of deposit insurance reform in 2006.

Verification and Validation

To ensure that the RRPS identifies higher-risk institutions and appropriately assesses higher insurance premiums, the FDIC reviews the assessment history of all failed insured depository institutions and determines whether the system is working adequately. The Government Accountability Office reviews the methodology used to determine the contingent loss reserve annually. In 2006, the FRC will again conduct a semi-annual review of the effectiveness of the contingent loss reserve methodology through an analysis of the variance between projected and actual losses.

Strategic Goal Insured depositors are protected from loss without recourse to taxpayer funding.

Strategic Objective Deposit insurance funds and system remain viable.

Annual Performance Goal Provide educational information to insured depository institutions and their customers to help them understand the rules for determining the amount of insurance coverage on deposit accounts.

Indicator and Targets Utility of educational tools available to bankers and consumers

- *Update Insuring Your Deposits (basic deposit insurance brochure for consumers), Your Insured Deposit (comprehensive deposit insurance brochure), and EDIE (Electronic Deposit Insurance Estimator) on the FDIC website to reflect changes resulting from enactment of deposit insurance reform legislation.*
- *Develop and make available to the public an updated Spanish language version of EDIE reflecting deposit insurance reform.*
- *Develop and make available to the public a Spanish language version of the FDIC's 30-minute video on deposit insurance coverage.*
- *Respond to 90 percent of inquiries from consumers and bankers about FDIC deposit insurance coverage within time frames established by policy.*
- *Respond to 90 percent of written inquiries within time frames established by policy.*

Means and Strategies *Operational Processes (initiatives and strategies)*: The FDIC uses a variety of means to educate insured financial institutions and depositors about FDIC deposit insurance coverage. In addition to conducting seminars for bank employees, the FDIC encourages the dissemination of educational information through the banking industry and the media. The FDIC enhances its deposit insurance educational tools and updates its deposit insurance publications as appropriate. The FDIC works with insured financial institutions to encourage them to use these tools and to make the FDIC's publications available to bank employees and customers. The FDIC also publishes articles on the insurance coverage rules in the *FDIC Consumer News*, a newsletter for consumers published by the FDIC four times a year, and works to publicize any changes to deposit insurance rules through the national and regional news media.

Human Resources (staffing and training): Staffing and training needs are reviewed on an ongoing basis to ensure that the resources supporting the deposit insurance educational initiative are adequate and that employees possess the skills and knowledge to effectively and successfully carry out this program.

Information Technology: The FDIC uses the Specialized Tracking and Reporting System (STARS) to manage the receipt of and response to banker and public inquiries about the FDIC's deposit insurance program. In 2006, the FDIC expects to expand its use of teleconferencing technology to reach a large audience of financial institution employees more efficiently and expanded use of the Internet to deliver deposit insurance educational tools and materials to the banking community and the public.

Verification and Validation Attainment of this performance target will be confirmed by verifying the availability of the updated deposit insurance brochures and the updated version of EDIE on the FDIC website within 120 days following the effective date of regulations implementing deposit insurance reform legislation.

SUPERVISION PROGRAM

The FDIC's Supervision Program promotes the safety and soundness of FDIC-supervised insured depository institutions, protects consumers' rights, and promotes community investment initiatives by FDIC-supervised insured depository institutions.

The FDIC supervises 5,245[3] FDIC-insured state-chartered banks that are not members of the Federal Reserve System, generally known as state non-member banks. This includes state-licensed insured branches of foreign banks and state-chartered savings institutions. The FDIC also has special examination authority for insurance purposes for state member banks that are supervised by the Federal Reserve Board (FRB), national banks that are supervised by the Office of the Comptroller of the Currency (OCC), and savings associations that are supervised by the Office of Thrift Supervision (OTS). This authority is exercised in the FDIC's role as insurer of those institutions.

As the primary federal regulator of all insured state non-member banks, the FDIC performs periodic examinations of those FDIC-supervised insured depository institutions to assess their overall financial condition, management policies and practices, and compliance with applicable laws and regulations. Through the examination process, the FDIC also assesses the adequacy of management and internal control systems to identify and control risks. Procedures normally performed in completing this assessment are designed to detect the risks of fraud or insider abuse.

If weaknesses are detected through the examination process, the FDIC takes appropriate supervisory action. Formal and informal enforcement actions may be issued for institutions identified as having significant weaknesses or those operating in a deteriorated financial condition. The institution must operate under the action until the weakness is remedied. When necessary, the FDIC may oversee the recapitalization, merger, closure, or other resolution of the institution.

The FDIC also acts on applications for new or expanded activities by FDIC-supervised insured depository institutions. When institutions apply for expansion of existing activities or locations, various factors are evaluated. These factors generally include capital adequacy, quality of management, financial condition, and compliance with applicable laws and regulations.

In 2006, the FDIC will continue its efforts to increase the operational efficiency of its supervisory programs in order to provide more cost-effective services to banks.

[3] As published in the FDIC December 2005 Quarterly Banking Profile.

The following table depicts the strategic goal, strategic objective, and annual performance goals for the Risk Management component of the Supervision Program.

Strategic Goal	Strategic Objective	Annual Performance Goals
FDIC-supervised institutions are safe and sound.	FDIC-supervised institutions appropriately manage risk.	Conduct on-site risk management examinations to assess the overall financial condition, management practices and policies, and compliance with applicable laws and regulations of FDIC-supervised depository institutions.
		Take prompt and effective supervisory action to address issues identified during the FDIC examination of FDIC-supervised institutions that receive a composite Uniform Financial Institutions Rating of "4" or "5" (problem institution). Monitor FDIC-supervised insured depository institutions' compliance with formal and informal enforcement actions.
		Increase regulatory knowledge to keep abreast of current issues related to money laundering and terrorist financing.
		More closely align regulatory capital with risk in large or multinational banks.
		More closely align regulatory capital with risk in banks not subject to Basel II capital rules.
		Ensure that FDIC-supervised institutions that plan to operate under the new Basel Capital Accord are making satisfactory progress toward meeting required qualification standards.

In its supervisory capacity, the FDIC promotes institution compliance with consumer protection, fair lending, privacy, and community reinvestment statutes. To facilitate compliance, the FDIC provides supervised insured depository institutions with updated information on consumer laws and regulations to help them better understand and comply with the laws. This information is provided in brochures and through other media, including the FDIC's website (www.fdic.gov). Through community outreach efforts and technical assistance, the FDIC encourages lenders to work with members of their local communities in meeting the communities' credit needs. The FDIC also develops information specifically for consumers, such as *FDIC Consumer News*, to increase awareness and help consumers better understand their rights and responsibilities.

To evaluate compliance, the FDIC conducts examinations of institution practices regarding the Community Reinvestment Act (CRA) and various consumer protection, fair lending, and privacy laws. Non-compliance with consumer protection or fair lending laws can result in civil liability and negative publicity as well as the imposition of formal or informal actions by the FDIC to correct the identified violations. Some consumer protection and fair lending laws require financial institutions to provide consumers with information intended to help them make informed decisions. As part of the compliance examination process, the FDIC reviews the information and disclosures that are provided to consumers by FDIC-supervised insured depository institutions in accordance with consumer protection laws and regulations. An institution's compliance with consumer protection, fair lending and privacy laws and its performance under the CRA are considered in an institution's application for entry into or expansion within the insured depository institution system.

The FDIC also investigates consumer complaints about FDIC-supervised insured depository institutions. Consumers write or electronically submit to the FDIC complaints and inquiries regarding consumer protection and fair lending issues. The FDIC monitors the level of public satisfaction with its responses to consumer complaints and inquiries. When the FDIC effectively investigates and responds to consumer complaints and inquiries, consumers better understand their rights under federal consumer protection and fair lending laws.

The following table depicts the strategic goal, strategic objectives, and annual performance goals for the Consumer Protection component of the Supervision Program.

Strategic Goal	Strategic Objectives	Annual Performance Goals
Consumers' rights are protected and FDIC-supervised institutions invest in their communities.	FDIC-supervised institutions comply with consumer protection, CRA, and fair lending laws.	Conduct CRA and compliance examinations in accordance with the FDIC's examination frequency policy.
		Take prompt and effective supervisory action to monitor and address problems identified during compliance examinations of FDIC-supervised institutions that receive a "4" or "5" rating for compliance with consumer protection and fair lending laws.
	Consumers have access to easily understood information about their rights and the disclosures due them under consumer protection and fair lending laws.	Provide effective outreach and technical assistance on topics related to the CRA, fair lending, and community development.
		Effectively meet the statutory mandate to investigate and respond to consumer complaints about FDIC-supervised financial institutions.

Strategic Goal FDIC-supervised institutions are safe and sound.

Strategic Objective FDIC-supervised institutions appropriately manage risk.

Annual Performance Goal Conduct on-site risk management examinations to assess the overall financial condition, management practices and policies, and compliance with applicable laws and regulations of FDIC-supervised depository institutions.

Indicator and Target Percentage of required examinations conducted in accordance with statutory requirements and FDIC policy

- *100 percent of required risk management examinations (including a review for Bank Secrecy Act [BSA] compliance) are conducted on schedule.*

Means and Strategies *Operational Processes (initiatives and strategies)*: Risk management examinations assess the overall financial condition, management practices and policies, and compliance with applicable regulations of FDIC-supervised depository institutions. The FDIC performs safety and soundness, BSA, information technology, trust, registered transfer agent, and municipal securities dealer and government security dealer examinations of FDIC-supervised insured depository institutions. In 2006, the FDIC projects that it will conduct approximately 2,400 risk management examinations required under statute, FDIC policy, or agreement with state supervisors. As part of its strong BSA/anti-money laundering (AML) supervision program, the FDIC will utilize revised interagency BSA/AML examination procedures developed and released by the Federal Financial Institution Examination Counsel (FFIEC) in 2005. The FDIC will also continue to conduct BSA/AML examinations in conjunction with risk management examinations conducted by state regulators for the small number of state bank regulatory agencies (currently fewer than 10) that do not incorporate BSA/AML examination procedures into those examinations.

The FDIC generally follows a risk-focused approach to examinations. This allows the FDIC to focus its examination resources on those areas that carry the greatest potential risk. The FDIC has several analytical models used to identify financial institutions that may be at risk, considering factors such as rapid growth, fluctuating earnings, downturns or excess concentration in vulnerable economic sectors. Examiners use these analyses when they are off-site planning examinations to better focus on high-risk areas during the on-site examination. They are also used to identify the need for inquiries or on-site visits to supervised institutions outside of the regular examination cycle.

Continuing industry consolidation, new technologies, and product innovation have resulted in larger, more complex organizations. The FDIC will continue to focus increased resources in 2006 on the larger, more complex financial institutions that constitute the most risk to the insurance funds. The FDIC will continue to assess and modify, as appropriate, its examination procedures in light of changing risk profiles for the industry and for individual institutions.

The FDIC also continues to focus on the risks posed by technology. Both on-site risk management and information technology examinations cover technology-related activities to determine how each FDIC-supervised depository institution manages risk in that area. The FDIC uses a monitoring system to proactively identify and assess indicators of technology risks that may impact FDIC-supervised institutions. In addition, the FDIC will continue to provide information to the industry about risks associated with technology outsourcing practices (e.g., contracting for computer services). The FDIC is engaged in an ongoing dialogue with technology vendors, bank trade associations, and standards and rule-setting entities to identify effective practices regarding the use of emerging technologies.

During 2005, the FDIC's response to the impact of the Gulf Coast hurricanes on financial institutions in that region was swift and comprehensive. The agency's response included, but was not limited to, the establishment of both a Call Center and a website to respond exclusively to hurricane-related inquiries; ongoing operational assessment of financial institutions in the most affected areas; regular communication with bank management to determine the challenges facing the industry; on an interagency basis, developing regulatory flexibilities to assist those institutions most impacted by the storms; and working closely with state and federal banking agencies to provide clear and consistent guidance to the industry, and develop supervisory strategies. During 2006, the FDIC's response to the 2005 storm season will expand to more clearly define the short- and long-term impact on those financial institutions in the most affected areas. This analysis will be conducted through both on- and off-site monitoring and will be used to better refine supervisory oversight, strategy, and response.

Human Resources (staffing and training): In 2005, FDIC risk management professionals participated in examination training on the recently released FFIEC BSA/AML examination procedures.

Additionally, in the fourth quarter of 2005, 350 risk management examiners and Regional Office staff and many attorneys participated in a three and one-half day training conference on BSA/AML compliance programs, emerging money laundering risks, and related illicit activities. In 2006, further guidance will be provided to risk management professionals through written memoranda, participation in the FFIEC BSA/AML Examination Workshop, and through written updates to the FFIEC BSA/AML examination manual.

The FDIC will also continue to augment its general training curriculum for examiners to provide training on the integration of technology issues with safety and soundness. The Information Technology Examination Course, which teaches examiners how to better integrate technology risk management into overall safety and soundness risk management, will be revised as a result of the Information Technology Risk Management Program. In addition, as it did in previous years the FDIC will consider building upon a solid base of general technology knowledge among risk management examiners by providing "refresher" training on pertinent technology topics. The intent is to ensure that all risk management examiners have the knowledge needed to perform their duties in light of the increased complexity of the technology being employed by the banking industry.

Information Technology: The FDIC will continue to employ automated tools, such as the General Examination System (GENESYS), the Examination Documentation (ED), and the Automated Loan Examination and Review Tool (ALERT), to improve the efficiency of its examinations.

Verification and Validation

The number of risk management examinations that will be conducted during 2006 may fluctuate due to a change in the number of FDIC-supervised insured depository institutions resulting from mergers, closings, and newly approved charters; changes in asset size, condition, or capital levels that may accelerate the examination cycle; or other reasons. The actual number of examinations conducted and adherence to required examination time frames will be tracked through internal management systems and reported in the FDIC's 2006 Annual Report.

External Factors

Scheduling, staffing, or other resource constraints outside of the FDIC's control may impact the completion of examinations in accordance with this annual goal. Under the alternating examination program, certain examinations are conducted on alternate 12- (or 18-) month cycles by the FDIC and the appropriate state supervisor. Should the state supervisor experience scheduling, staffing, or other resource constraints when the state is responsible for completing the examination, the statutory examination requirement may not be met. In such cases, the FDIC will work with the state supervisor to ensure that any delinquent examination is promptly scheduled and completed. When appropriate, the FDIC may conduct the examination in lieu of the state supervisor.

Strategic Goal FDIC-supervised institutions are safe and sound.

Strategic Objective FDIC-supervised institutions appropriately manage risk.

Annual Performance Goal Take prompt and effective supervisory action to address problems identified during the FDIC examination of FDIC-supervised institutions that receive a composite Uniform Financial Institutions Rating of "4" or "5" (problem institution). Monitor FDIC-supervised insured depository institutions' compliance with formal and informal enforcement actions.

Indicator and Target Percentage of follow-up examinations of problem institutions conducted within required time frames

- *100 percent of follow-up examinations are conducted within 12 months of completion of the prior examination.*

Means and Strategies *Operational Processes (initiatives and strategies)*: Problem institutions are identified primarily through the examination process. While reason and moral suasion are the primary corrective tools, the FDIC has broad enforcement powers to correct practices, conditions, or violations of law that threaten an insured depository institution's safety and soundness. The FDIC's actions may include informal and formal enforcement actions against the institution or responsible individuals to address identified problems. Follow-up examinations will in all cases include a review of compliance with supervisory actions. Additional follow-up action will be taken where compliance is insufficient.

The responsible case manager and senior regional officials will closely monitor problem depository institutions. Progress on compliance with enforcement actions will be assessed through progress reports from institutions and the use of other off-site monitoring tools, direct communication with financial institution management, or on-site visits.

Human Resources (staffing and training): Staffing and training needs are continually reviewed to ensure that the FDIC has the ability and knowledge to identify and address relevant risk areas.

Information Technology: The Formal and Informal Action Tracking (FIAT) System used by the FDIC as the system of record for monitoring all enforcement action activity was retired in 2005 and its functions were incorporated into the Virtual Supervisory Information on the Net (ViSION) system. ViSION will now be used to monitor all enforcement action activity.

Verification and Validation Monthly reports of problem institutions generated from the Summary Analysis of Examination Report (SAER) System are reviewed for accuracy. Reports provided by the regional offices on follow-up examinations will be compared to data on SAER. The examination report identifies supervisory actions to be taken. In order to ensure that those supervisory actions are taken promptly, the FDIC will monitor the time it takes to provide examination reports to FDIC-supervised problem institutions after the completion of an examination.

The FDIC will also continue to use the Regional Office Internal Control Review program to ensure regions are monitoring FDIC-supervised insured depository institutions' compliance with formal and informal enforcement actions. This review incorporates various components of the supervisory process, including assessment of the appropriateness, implementation, and follow-up of formal and informal corrective actions. Any material exceptions noted during the reviews will be raised to management's attention for appropriate action.

Strategic Goal	FDIC-supervised institutions are safe and sound.
Strategic Objective	FDIC-supervised institutions appropriately manage risk.
Annual Performance Goal	Increase regulatory knowledge to keep abreast of current issues related to money laundering and terrorist financing.
Indicators and Targets	Certification of BSA/AML subject matter experts • *At least 10 percent of BSA/AML subject matter experts nationwide are certified under the Association of Certified Anti-Money Laundering Specialists certification program.*
Means and Strategies	*Operational Processes (initiatives and strategies)*: In 2005, there continued to be a heightened concern regarding compliance with BSA/AML rules and regulations within the financial services sector and the risks associated with noncompliance. The FDIC continued its efforts to increase industry and regulatory awareness of the risks associated with lax controls and procedures that could expose institutions to potential money laundering and/or terrorist financing activities. This effort included participating in the development of an interagency BSA/AML Examination Manual, which was released in June 2005 as well as outreach efforts to familiarize examiners with the new manual. The FDIC also expanded outreach efforts to promote greater industry awareness and understanding of the BSA regulations and other supervisory matters related to BSA/AML compliance. Well-attended industry outreach events specifically targeting BSA/AML issues were conducted in every region. Based on the success of this program, the FDIC will continue targeted outreach sessions in 2006 in each region. In addition, the FDIC will focus on enhancing examiner training in 2006 (see "Human Resources" below). *Human Resources (staffing and training)*: Currently, more than 300 FDIC risk management examiners are trained as BSA/AML subject matter experts. They perform BSA/AML examinations at institutions that have a higher risk profile due to geographic location, customer base, or compliance record. In 2005, the FDIC conducted a training conference to further enhance the expertise of these specialists. The training addressed more complex BSA/AML examination procedures, such as those pertaining to correspondent and private banking relationships with foreign entities (including funds transfer activity), money service businesses and other non-bank financial institutions, enhanced due diligence of high-risk accounts, and compliance with regulations enforced by the Office of Foreign Assets Control. In 2006, the FDIC will establish the National BSA/AML

Task Force to make qualified examiners available to participate in selected BSA/AML examinations of large, and/or high-risk institutions where potential money laundering or terrorist financing activity is a concern.

In 2005, approximately 20 examiners and attorneys completed training to become certified anti-money laundering specialists through the Association of Certified Anti-Money Laundering Specialists (ACAMS). The certification process involves a self study course with testing in the following areas: money laundering risks and methods, international standard of money laundering compliance, money laundering compliance program and conducting or supporting the investigation process. In 2006, an additional 40 risk management examiners will participate in this program. This advanced knowledge and industry-recognized certification will equip examiners to identify a broader range of sophisticated money laundering and terrorist financing methods, as well as help the FDIC enhance its BSA/AML examination program.

Information Technology: BSA/AML reference materials are available on the FDIC website at: http://www.fdic.gov/regulations/examinations/bsa/index.html. This link was added to the public website in June 2004 to centralize and expand access to BSA/AML/CFT resources for the banking industry as well as the regulatory community. The link provides information and instruction related to examination procedures, interpretive guidance, websites of related agencies, instructions for reporting suspicious activity and terrorist-related activity, and an overview of governing rules and regulations.

In concert with the release of the interagency BSA/AML Examination Manual, the federal banking agencies have also made available through the Federal Financial Institutions Examination Council web site (www.ffiec.gov) a BSA InfoBase, that includes the interagency BSA/AML Examination manual, the BSA regulations, a presentation on how the manual is organized and guidance provided by each federal banking agency.

Verification and Validation

The Washington Office is responsible for providing advanced BSA/AML training to the FDIC's subject matter experts. The Regional Offices report to the Washington Office on the planning and completion of the outreach sessions.

Strategic Goal FDIC-supervised institutions are safe and sound.

Strategic Objective FDIC-supervised institutions appropriately manage risk.

Annual Performance Goal More closely align regulatory capital with risk in large or multinational banks.

Indicator and Targets Continuation of preparatory activities related to the implementation of the new Basel Capital Accord (Basel II)

- *Publish a Notice of Proposed Rulemaking (NPR).*
- *Participate in the continuing analysis of the projected results of the new capital regime.*

Means and Strategies *Operational Processes (initiatives and strategies)*: The objective of Basel II is to more closely align regulatory capital with risk in large or multinational banks. The FDIC is working with the Basel Committee on Banking Supervision and the other federal bank regulatory agencies to plan for implementation of Basel II. The agencies expect that only a small number of large, internationally active U.S. banking organizations will be required to use the Basel II framework, and that those institutions will use only the most advanced approaches of Basel II for determining their risk-based capital requirements. The adoption of the domestic Basel II framework by other U.S. banking organizations would be at the option of the individual banking organization and subject to their meeting certain predefined qualification standards. The existing capital rules, as amended, would continue to apply to those institutions that did not elect to use the framework.

The Basel II NPR Interagency Working Group (Working Group) is responsible for developing an NPR that will formalize our current plans and proposals for implementing Basel II in the United States. The Working Group will use the Basel Committee's text on the "International Convergence of Capital Measurement and Capital Standards," comments received in response to the Advance Notice of Proposed Rulemaking (ANPR) and recently published "Application of Basel II to Trading Activities and the Treatment of Double Default Effects," as well as other resources to develop an NPR that more closely aligns regulatory capital with risk in large or multinational banks. In 2006, the Working Group will continue to meet periodically to develop the NPR text, and will coordinate efforts with the Basel II Steering Group and the Guidance Development Committee.

An interagency press release was issued in September 2005 stating that the agencies expect that the U.S. Basel II NPR is to be issued during the first quarter of 2006. The release further stated that the agencies expect the NPR to include prudential safeguards on the domestic implementation of Basel II that will address concerns raised by the latest Quantitative Impact Study (QIS-4) submissions. QIS-4 is an interagency effort designed to develop a better understanding of the capital requirements resulting from U.S. implementation of the new Basel Capital Accord. QIS-4 is one part of the implementation plan to assist in the transition to the new framework. Twenty-six large banking organizations provided data covering all material risks for their consolidated organizations, as well as narrative information on the methodologies employed in developing risk metrics and data inputs. The results have been finalized and communicated to the individual participants. In 2006, the interagency QIS-4 group will publish a summary report and press release describing the results. In addition, QIS-4 results may be used to refine the advanced approaches to Basel implementation.

The first opportunity for U.S. banking institutions to conduct a parallel run under Basel II will be in January 2008. U.S. institutions adopting the Basel II-based capital rules will be subject to a minimum three-year transition period during which the agencies will apply floors that limit the amount by which each institution's risk-based capital could decline under Basel II. The floors will be applied in the following manner: 2009 – 95%, 2010 – 90%, and 2011 – 85%. Information received during the U.S. Basel II implementation process—including the transition period—will be used to evaluate the effectiveness of the new framework. The agencies anticipate further revisions to the U.S. Basel II-based capital rules prior to the termination of the floors. Additionally, the agencies will retain both the existing Prompt Corrective Action and leverage capital requirements in the proposed domestic implementation of Basel II. The final results of QIS-4 will also be incorporated into the international QIS-5 results and used for recalibration of the multiplier for the overall Basel framework during the spring of 2006.

Human Resources (staffing and training): The Working Group will need to draw from various disciplines and skill sets to ensure a quality product is delivered within the established time frames. The breadth and depth of FDIC knowledge of Basel II-related matters has expanded greatly due in part to our continued participation and active involvement in QIS-4 and guidance development groups. Much of the staff currently participating in these projects will assist in the development, review and editing of the sections of the NPR related to their areas of expertise. Staff will be utilized primarily for their technical expertise in a given subject matter.

In that regard, the FDIC augmented its skill sets in 2005 by adding to its staff several analysts who are highly skilled in mathematics and advanced quantitative methods. Implementation of Basel II will require that certain insured institutions adopt advanced approaches to capital adequacy assessment that rely on internal models to estimate capital adequacy requirements.

Both headquarters and field personnel are involved in the development and execution of QIS-4. The FDIC's QIS-4 team is coordinated by Large Bank Specialists and is composed of financial analysts, policy analysts, and examiners. Once QIS-4 submissions are finalized, the data will be used by various constituencies inside the FDIC as well as in the other regulatory agencies.

Information Technology: The Working Group will utilize existing information technology to accomplish the annual performance goal and targets for 2006. The Working Group does not envision expanding or enhancing existing technology during the policy development stage of this project.

Verification and Validation Progress in meeting this annual performance goal will be tracked through periodic meetings and established reporting processes.

Strategic Goal	FDIC-supervised institutions are safe and sound.
Strategic Objective	FDIC-supervised institutions appropriately manage risk.
Annual Performance Goal	More closely align regulatory capital with risk in banks not subject to Basel II capital rules.
Indicator and Targets	Development of a revised capital framework proposal for institutions not subject to Basel II. • Develop a Notice of Proposed Rulemaking (NPR) for public issuance.
Means and Strategies	*Operational Processes (initiatives and strategies):* In conjunction with the transition to Basel II for the largest insured institutions, the FDIC and the other Federal bank regulatory agencies are pursuing a more risk sensitive capital framework for institutions that are not subject to Basel II. This new capital framework would seek to minimize potential competitive inequities between large and small banks resulting from the implementation of Basel II while maintaining adequate capital levels and avoiding undue burden on the affected institutions. In October 2005, the agencies jointly issued an Advance Notice of Proposed Rulemaking (ANPR) soliciting input on how best to accomplish these objectives. During 2006, the agencies will consider the comments received in response to the ANPR in developing an NPR, in a timeframe that will allow the banking industry to compare both rulemakings. The NPR will be developed by an Interagency Working Group comprised of policy staff from the FDIC, OCC, FRB, and OTS. *Human Resources (staffing and training)*: The Working Group will need to draw from various disciplines and skill sets within the various Federal bank regulatory agencies to ensure that the NPR is completed within the established time frames and that the new capital framework proposed effectively addresses the objectives identified above. *Information Technology*: The Working Group will utilize existing information technology systems and resources to accomplish the 2006 annual performance goal, indicator, and target. New or enhanced technology resources will not be required during the policy development stage of this project.
Verification and Validation	Progress in meeting this annual performance goal will be tracked through periodic meetings and established reporting processes.

Strategic Goal FDIC-supervised institutions are safe and sound.

Strategic Objective FDIC-supervised institutions appropriately manage risk.

Annual Performance Goal Ensure that FDIC-supervised institutions that plan to operate under the new Basel Capital Accord are making satisfactory progress toward meeting required qualification standards.

Indicator and Target Percentage of on-site examinations or off-site analyses performed

- *On-site examinations or offsite analyses are performed for all FDIC-supervised banks that intend to operate under Basel II to ensure that they are effectively working toward meeting required qualification standards.*

Means and Strategies *Operational Processes (initiatives and strategies)*: Basel II is scheduled to be implemented in the U.S. on January 1, 2009. The FDIC actively participates on various international and domestic working groups relating to Basel II. For example, staff is involved in interagency efforts related to rulemaking, reporting, and development of examination guidance to ensure uniform application of supervisory standards. Additionally, staff routinely participates in meetings of various Basel II international committees and working groups that focus on policy and implementation issues.

None of the insured institutions for which the FDIC is the primary Federal regulator have yet formally indicated that they intend to opt-in for treatment under Basel II. However, staff continues to identify and routinely conduct outreach with institutions that may be considering operating under the new rules. Among other activities, outreach efforts include responding to requests to review and discuss progress in developing project plans or designing systems in accordance with draft examination guidance. Staff also continues to work closely with other primary federal regulators to ensure uniform application of Basel II among all insured institutions.

Domestic agencies continue to work toward publication of a Basel II Notice of Proposed Rulemaking, which is currently expected to be available around the end of the first quarter of 2006. In the interim, the FDIC will continue to work with institutions that may intend to opt-in under the new rules. In 2005, on-site and off-site supervisory activities related to FDIC-supervised institutions were intensified to ensure that these institutions continue to work toward meeting qualification standards, in accordance with institution-proposed timelines for opting-in.

Human Resources (staffing and training): The FDIC increased large bank staff in 2005, which included better aligning staffing with expected workload associated with preparations for Basel II. Designated staff will continue to receive training to ensure that they have the requisite knowledge, expertise, and experience to meet the supervisory challenges posed by Basel II.

To prepare effectively for implementation of Basel II, the FDIC augmented its skill set by adding analysts who are highly skilled in mathematics and advanced quantitative methods. Implementation of Basel II will require that certain insured institutions adopt advanced approaches to capital adequacy assessment that rely on internal models to estimate capital adequacy requirements. Quantitative analysts will be instrumental in ensuring that quantitative methods used in the advanced internal ratings based approaches are adequate in qualifying for Basel II capital treatment at the outset and that such systems are satisfactory as the industry, markets and risk management techniques evolve.

Information Technology: Existing technology will be used to accomplish this goal. No new information systems or automated tools will be developed in support of this annual performance goal in 2006.

Verification and Validation Progress in meeting this annual performance goal will be tracked through periodic meetings and established reporting processes.

Strategic Goal	Consumers' rights are protected and FDIC-supervised institutions invest in their communities.
Strategic Objective	FDIC-supervised institutions comply with consumer protection, CRA, and fair lending laws.
Annual Performance Goal	Conduct CRA and compliance examinations in accordance with FDIC examination frequency policy.
Indicator and Target	Percentage of examinations conducted in accordance with required time frames • *100 percent of required examinations are conducted within time frames established by FDIC policy.*
Means and Strategies	*Operational Processes (initiatives and strategies)*: The FDIC conducts CRA and compliance examinations of FDIC-supervised depository institutions in order to determine the institution's compliance with consumer protection and fair lending laws and its performance under the CRA. The frequency of these examinations is specified by FDIC policy. For CRA examinations, the FDIC's examination frequency policy conforms to applicable provisions of the Gramm-Leach-Bliley Act (GLBA). GLBA establishes the CRA examination cycle for most small banks (those institutions with less than $250 million in assets). Institutions with aggregate assets of $250 million or less and a CRA rating of "Outstanding" are subject to a CRA examination no more than once every 60 months; those with aggregate assets of $250 million or less and a "Satisfactory" CRA rating are subject to a CRA examination no more than once every 48 months. Compliance examinations for most institutions with less than $250 million in assets are generally required at least once every 36 months under FDIC policy. A compliance examination is generally conducted concurrently with the CRA examination. In addition, a second compliance examination generally will be conducted at the mid-point between CRA examinations.

In 2005, the FDIC continued to implement a restructured compliance examination approach that places greater emphasis on an institution's compliance risk-management practices as opposed to exhaustive transactional testing. This approach involves an expanded review of an institution's systems and compliance policies so that transaction testing can be better targeted and focused on areas of greatest risk exposure. This approach makes more efficient and effective use of examination resources, especially in financial institutions with high compliance risk profiles.

Human Resources (staffing and training): Staffing and training needs are reviewed on an ongoing basis to ensure that the staff resources supporting the examination program are adequate and that those employees possess the skill and knowledge to effectively and successfully carry out this program.

Information Technology: The System of Uniform Reporting of Compliance and CRA Examinations (SOURCE) is used to schedule and track financial institution compliance examinations, support pre-examination planning, and provide management information.

Verification and Validation The FDIC will analyze examination-related data collected in SOURCE to determine whether targeted performance levels were achieved during the reporting period.

Strategic Goal	Consumers' rights are protected and FDIC-supervised institutions invest in their communities.
Strategic Objective	FDIC-supervised institutions comply with consumer protection, CRA, and fair lending laws.
Annual Performance Goal	Take prompt and effective supervisory action to monitor and address problems identified during compliance examinations of FDIC-supervised institutions that receive a "4" or "5" rating for compliance with consumer protection and fair lending laws.
Indicator and Target	Percentage of follow-up examinations or related activities conducted within required time frames • *100 percent of follow-up examinations or related activities are conducted within 12 months from the date of a formal enforcement action to confirm that the institution is in compliance with the enforcement action.*
Means and Strategies	*Operational Processes (initiatives and strategies)*: Problem institutions are identified primarily through the examination process. While reason and moral suasion are the primary corrective tools, the FDIC has broad enforcement powers to correct practices, conditions, or violations of law that threaten an institution's compliance with consumer protection and fair lending laws or a consumer's rights under those laws. The FDIC's actions may include informal and formal enforcement actions against the institution or responsible individuals to address identified problems. Follow-up examinations will include in all cases a review of compliance with supervisory actions. Additional follow-up action will be taken where compliance is insufficient. *Human Resources (staffing and training)*: Staffing and training needs will be reviewed on an ongoing basis to ensure resources supporting the examination program are adequate and those employees possess the skill and knowledge to effectively and successfully carry out this program. *Information Technology*: The Formal and Informal Action Tracking (FIAT) System used by the FDIC as the system of record for monitoring all enforcement action activity was retired in 2005 and its functions were incorporated into the Virtual Supervisory Information on the Net (ViSION) system. ViSION will now be used to monitor all enforcement action activity

Verification and Validation The FDIC analyzes examination-related data collected in the ViSION System to verify and validate supervisory action data.

Strategic Goal Consumers' rights are protected and FDIC-supervised institutions invest in their communities.

Strategic Objective Consumers have access to easily understood information about their rights and the disclosures due them under consumer protection and fair lending laws.

Annual Performance Goal Provide effective outreach and technical assistance on topics related to CRA, fair lending, and community development.

Indicators and Targets

1. Number of individuals taking a *Money Smart* class or using the self-paced curriculum
   - *200,000 additional individuals are taught using the Money Smart curriculum.*

2. Number of outreach activities conducted, including technical assistance activities
   - *125 technical assistance (examination support) efforts or banker/community outreach activities are conducted related to CRA, fair lending, or community development.*

Means and Strategies *Operational Processes (initiatives and strategies)*: The FDIC participates in a variety of community outreach activities designed to increase awareness of community and economic development; increase knowledge of CRA regulations and fair lending laws; enhance lending, investment, and service performance; and assist FDIC-supervised insured depository institutions in developing strategies to respond to credit, investment, and service opportunities.

In 2006, the FDIC will continue eight community development initiatives designed to increase access to capital. In addition, the FDIC will implement initiatives designed to facilitate access of "unbanked" and " traditionally underserved" communities to the services of financial institutions and programs designed to address their specific needs, such as affordable housing, remittances, small business and micro-lending and asset-building. The FDIC will also continue to develop and promote use of the *Money Smart* financial education products to be responsive to market demand.

Verification and Validation The FDIC will report periodically through established corporate reporting processes on the number of organizations and individuals exposed to the *Money Smart* curriculum, the level of use of the curriculum, the number of outreach and technical assistance activities conducted, and the status of community development projects and initiatives.

Strategic Goal	Consumers' rights are protected and FDIC-supervised institutions invest in their communities.
Strategic Objective	Consumers have access to easily understood information about their rights and the disclosures due them under consumer protection and fair lending laws.
Annual Performance Goal	Effectively meet the statutory mandate to investigate and respond to consumer complaints about FDIC-supervised financial institutions.
Indicator and Target	Timely responses to written complaints • *Responses are provided to 90 percent of written complaints within time frames established by policy.*
Means and Strategies	*Operational Processes (initiatives and strategies)*: The FDIC investigates and responds to written complaints regarding consumer protection and fair lending issues, including those received electronically through the Customer Assistance Form on the FDIC's website. It also provides consumer protection information to financial institutions and the public. When performed effectively, these activities help consumers better understand their rights under consumer protection and federal fair lending laws. In 2006, the FDIC expects to receive approximately 9,000 written complaints. The FDIC will closely monitor the timeliness of its responses. Additionally, the FDIC has begun surveying a sample of consumers who have filed written consumer protection and fair lending complaints in order to assess their satisfaction with the FDIC's investigations and responses. *Human Resources (staffing and training)*: The FDIC has centralized its responsibility for responding to consumer complaints in its Consumer Response Center in Kansas City. This facilitates the maintenance of staff knowledge and expertise and provides greater flexibility in balancing staff resources and workload. *Information Technology*: The FDIC uses the Specialized Tracking and Recording System (STARS) to capture and report information about complaints, including response time.
Verification and Validation	In order to maintain the integrity of STARS data, system edit checks and data field requirements are designed to eliminate inaccurate and illogical data. During periodic system testing and internal control reviews, additional efforts are made to determine whether existing

data verification and validation procedures and controls remain adequate. Accepted survey research methods have been employed to ensure the validity of the customer satisfaction survey instrument and to verify the accuracy of the survey results.

RECEIVERSHIP MANAGEMENT PROGRAM

The Receivership Management Program ensures that recovery to creditors of receiverships is achieved. The FDIC resolves failing insured institutions in the least-costly manner. The FDIC is proactive in identifying troubled insured depository institutions and generally begins its resolution efforts, such as valuing assets and identifying potential purchasers of these institutions, before the institutions fail. At failure, the FDIC is appointed receiver and succeeds to the rights, powers, and privileges of the insured depository institution and its stockholders, officers, and directors.

Once the FDIC is appointed as receiver for any insured depository institution, the FDIC marshals the institution's assets for the benefit of the creditors. The FDIC is often the largest creditor after fulfilling its obligations as deposit insurer. The Corporation immediately works to identify and notify potential creditors of the failed insured depository institution of the failure and the process for submitting claims against the receivership. The FDIC reviews all claims and provides those creditors with valid claims certificates, entitling them to a share in the net assets of the receivership (to the extent funds are available) in accordance with priorities mandated by statute and applicable regulations.

To fulfill its responsibilities to creditors of the failed institution, the FDIC, as receiver, manages and sells the assets through a variety of strategies and identifies and collects monies due to the receivership. In addition, the receiver may have valid claims against former directors, officers, attorneys, accountants, or other professionals who may have caused harm to the institution. Funds collected through the management and sale of assets and the pursuit of valid claims are distributed according to priorities set by law.

To ensure that receiverships are managed effectively toward an orderly and timely termination, the FDIC has an active receivership oversight program. The program fosters an efficient and responsible business approach to receivership management. This business approach focuses on the economics of each receivership through the establishment of unique business plans, the monitoring of performance, and timely termination. Once the FDIC sells the assets of the receivership and resolves the receivership obligations, claims, and any legal impediments, the receivership is terminated and a final distribution is made to its creditors.

The following table depicts the strategic goal, strategic objectives, and annual performance goals for the Receivership Management Program.

Strategic Goal	Strategic Objectives	Annual Performance Goals
Recovery to creditors of receiverships is achieved	The FDIC resolves failed insured depository institutions in the least-costly manner.	Market failing institutions to all known qualified and interested potential bidders.
	Receiverships are managed to maximize net return toward an orderly and timely termination.	Value, manage, and market assets of failed institutions and their subsidiaries in a timely manner to maximize net return.
		Manage the receivership estate and its subsidiaries toward an orderly termination.
	Potential recoveries, including claims against professionals, are investigated and are pursued and resolved in a fair and cost-effective manner.	Conduct investigations into all potential professional liability claim areas in all failed insured depository institutions and decide as promptly as possible to close or pursue each claim, considering the size and complexity of the institution.

Strategic Goal Recovery to creditors of receiverships is achieved.

Strategic Objective The FDIC resolves failed insured depository institutions in the least-costly manner.

Annual Performance Goal Market failing institutions to all known qualified and interested potential bidders.

Indicator and Target List of qualified and interested bidders

- *Contact all known qualified and interested bidders.*

Means and Strategies *Operational Processes (initiatives and strategies)*: The FDIC markets the deposits and assets of the failing institution to all known qualified and interested potential bidders to stimulate as much competition as possible. The FDIC maintains an inventory of qualified and interested potential bidders consisting of both financial institutions and private investors. In preparing a list of potential bidders for the failing institution, the FDIC takes into account the failed institution's geographic location, competitive environment, minority-owned status, financial condition, asset size, capital level, and regulatory ratings. The FDIC contacts these potential bidders and holds an informational meeting and/or uses the Internet to provide information on the failing institution. Potential bidders are then given the opportunity to perform due diligence on the failing institution's assets and liabilities before determining whether to submit bids.

Human Resources (staffing and training): Based on workload fluctuations, staffing requirements will continually be assessed to meet the FDIC's needs in carrying out its receivership management responsibilities. The FDIC has established policies and procedures to allow for the temporary assignment of resources to meet workload demands and mission responsibilities. As indicated above, the Corporation began implementation of the Corporate Employee Program in 2005. This new program will expand the FDIC's knowledge base in the areas of resolutions and receiverships and will ensure a continual level of readiness among the workforce.

Information Technology: The FDIC will continue to use a web-based automated notification system that uses customer preference profiles for potential purchasers of loans as well as for deposit franchise buyers. By using e-mail and a secure website, the FDIC can market to a potential bidder both the failed institution and its assets more effectively and efficiently.

Verification and Validation	The franchise marketing process is currently tracked through the FDIC's Overarching Automation System (OASIS).

Strategic Goal Recovery to creditors of receiverships is achieved.

Strategic Objective Receiverships are managed to maximize net return toward an orderly and timely termination.

Annual Performance Goal Value, manage, and market assets of failed institutions and their subsidiaries in a timely manner to maximize net return.

Indicator and Target Percentage of failed institution's assets marketed

- *90 percent of the book value of a failed institution's marketable assets are marketed within 90 days of failure.*

Means and Strategies *Operational Processes (initiatives and strategies)*: Returning private assets to the private sector quickly allows the FDIC to maximize net recoveries and to minimize any disruption to the local community. The FDIC expedites the return of the assets of the failed institution to the private sector by marketing most assets soon after an insured institution fails. Given adequate time, the FDIC prepares an information package and an asset valuation review for each failing insured depository institution to assist in the solicitation of bidders, analysis of bids received for the assumption of deposits, and sale of assets at resolution or shortly thereafter. For asset sales, the failed institution's assets are grouped into pools that will be most appealing to acquirers and marketed via an internet site – www.FDICSales.com. The web site allows asset buyers the opportunity to view all sale information electronically prior to electronic bid submission. The FDIC also complements electronic due diligence with hard copy due diligence whereby customers are allowed to view all hard copy sale information at the actual sales site.

After the resolution of the failed institution, the FDIC collects and manages the remaining assets in a cost-effective manner to maximize recoveries and preserve value until the assets can be marketed. The FDIC will continue to update and refine its marketing strategies in order to market assets as quickly and efficiently as possible. Where appropriate, the FDIC will manage and dispose of most of the remaining assets from the failed bank location. The FDIC uses the Standard Asset Valuation Estimation (SAVE) methodology to value and make marketing and disposition decisions regarding most of the assets of the failed institutions. SAVE methodology uses standard assumptions and market information to ensure consistency in valuing assets. The valuation process, methodology, and assumptions used to value assets are continually reviewed and, where necessary, updated.

Human Resources (staffing and training): Workload and staffing requirements are reassessed on a regular basis to ensure that staffing is sufficient to meet the FDIC's receivership management responsibilities. The FDIC has established policies and procedures to allow for the temporary assignment of resources to meet mission responsibilities during unexpected workload spikes. The Corporation began implementation of the Corporate Employee Program in 2005. This new program will expand the FDIC's knowledge base in the areas of resolutions and receiverships and will ensure a continual level of readiness.

Information Technology: The FDIC will continue to use new and refined technology to make its asset management/servicing, sale strategies and processes more efficient and to keep pace with changing market and business practices. It will continue to emphasize the use of the Internet as a tool to deliver asset marketing information to potential investors and to auction/sell assets received from failed institutions.

The Corporation is currently in the midst of a major new systems initiative, the Asset Servicing Technology Enhancement Project (ASTEP), to support the FDIC's current and future asset-servicing responsibilities. This project uses adaptable technology that is compatible with industry standards to leverage best practices and product enhancements, providing the FDIC with a single data source for asset reporting, thereby eliminating data redundancies and related data reconciliation efforts. In 2005, the Corporation converted assets previously housed on the National Processing System (NPS) to an industry standard software application hosted by an application service provider. Design and development of the new ASTEP environment will continue in 2006.

Verification and Validation

Asset-marketing information is compiled from the actual sale initiatives that are offered by the FDIC to bidders prior to and/or within 90 days of failure. The offerings are compared to the beginning inventory of marketable assets prepared by the FDIC at the time of the institution's failure.

Strategic Goal Recovery to creditors of receiverships is achieved.

Strategic Objective Receiverships are managed to maximize net return toward an orderly and timely termination.

Annual Performance Goal Manage the receivership estate and its subsidiaries toward an orderly termination.

Indicator and Target Timely termination of new receiverships

- *Terminate all receiverships within 90 days of the resolution of all impediments.*

Means and Strategies *Operational Processes (initiatives and strategies)*: The oversight and prompt termination of a receivership preserves value for the uninsured depositors and other receivership claimants by reducing overhead and other holding costs. When the FDIC is appointed receiver, a unique action plan is established for each receivership that is executed by various asset, liability, finance, and legal staff assigned to that receivership. Receivership staff provides oversight and monitors the execution of each receivership action plan, including the goals and milestones established in each plan. In addition, an oversight committee, comprised of senior FDIC managers, meets periodically to review and evaluate the quarterly progress of each receivership action plan.

To be eligible for termination, a receivership must be free of impediments that represent material financial or legal risks to the FDIC. These impediments may include: outstanding contractual liabilities; outstanding offensive or defensive litigation; potential representation and warranty asset sale claims; open employee benefit plans; open subsidiary corporations where articles of dissolution have not yet been approved; and known or potential environmental contamination liabilities. Once the FDIC has disposed of all of the assets of the receivership, all liabilities have been resolved, and no material financial or legal risks to the FDIC remain, a final distribution is made to the creditors of the receivership, and the receivership entity is terminated.

At the beginning of 2006, there were 54 active receiverships. The FDIC has been unable to terminate these receiverships due to various impediments. The impediments are monitored closely and will be resolved as quickly as possible.

Verification and Validation The process of inactivating a receivership is currently tracked in FDIC systems. Monthly activity reports of deactivations are generated and reviewed for accuracy. System users validate the activity data, and any discrepancies are reconciled.

Strategic Goal Recovery to creditors of receiverships is achieved.

Strategic Objective Potential recoveries, including claims against professionals, are investigated and are pursued and resolved in a fair and cost-effective manner.

Annual Performance Goal Conduct investigations into all potential professional liability claim areas in all failed insured depository institutions, and decide as promptly as possible to close or pursue each claim, considering the size and complexity of the institution.

Indicator and Target Percentage of investigated claim areas for which a decision has been made to close or pursue the claim

- *For 80 percent of all claim areas, a decision is made to close or pursue claims within 18 months of the failure date.*

Means and Strategies *Operational Processes (initiatives and strategies)*: The FDIC investigates potential claims against professionals (e.g., directors, officers, attorneys, and others) who may have caused losses to the failed institution and insurance carriers that provide fidelity insurance to the failed institution. Once the investigation is complete, the FDIC determines whether it has viable, cost-effective claims and whether it should pursue such claims. Most professional liability investigations must be completed and viable claims filed within a three-year statute of limitations period.

The FDIC's attorneys and investigators work together to assure that valid claims arising from the failure of an insured institution are fully evaluated within the prescribed time period. The team conducts a factual investigation of the events that contributed to losses at the institution as well as legal research and analysis of potential claims. The team prepares additional analysis to determine the likelihood of a recovery exceeding the estimated cost of pursuing each such claim. The team then prepares a memorandum, reviewed and approved by senior FDIC management, recommending that a claim be pursued or that an investigation be closed.

Human Resources (staffing and training): Workload and staffing requirements are reassessed on a regular basis to ensure that staffing is sufficient to meet the FDIC's receivership management responsibilities. The FDIC has established policies and procedures to allow for the temporary assignment of resources to meet mission responsibilities during unexpected workload spikes. The Corporation began implementation of the Corporate Employee Program (CEP) in 2005. This new program will expand the FDIC's knowledge base in the areas of resolutions and receiverships and will ensure a continual level of readiness.

Information Technology: Data necessary to track failure dates of insured institutions, potential statute of limitations expiration dates, and other pertinent dates are routinely collected and stored in FDIC systems. Status information and decision events are also input for each matter on a current basis.

Verification and Validation

Periodic data scrubs and audits are conducted to ensure accuracy and currency of information from FDIC systems. Consistent maintenance of these systems ensures that accurate data needed to measure compliance with the annual goal is readily available.

EFFECTIVE MANAGEMENT OF STRATEGIC RESOURCES

Introduction

The FDIC recognizes that it must effectively manage a number of critical strategic resources in order to successfully carry out its mission and realize the annual performance goals set forth above for its three major programs. This is also an integral part of the Corporation's stewardship responsibility for the insurance funds that it manages. An overview of planned 2006 initiatives that will enhance management of the Corporation's key strategic resources is provided below.

Human Capital Management

The FDIC's employees are its most important resource. It strives to be the employer of choice within the financial regulatory community and to operate a human resources program that attracts and retains a high-quality, results-oriented workforce. In 2005, the FDIC established a new human capital framework and strategy to guide its activities in this area. A key element of that strategy is the planned evolution toward a more flexible permanent workforce that will be capable of responding rapidly to significant changes in the financial services industry or unexpected changes in workload or priorities. This future workforce will have a somewhat different mix of skill sets and will utilize a more collaborative approach in addressing the FDIC's mission responsibilities. The major human capital initiatives planned for 2006 support this transformation of the FDIC workforce.

Corporate Employee Program. The Corporate Employee Program (CEP) is a key component of the Corporation's plan to create a flexible permanent workforce for the future. Under the CEP, employees will be cross-trained to perform functions in multiple business lines. Fifty employees in the receivership management business line were selected for cross training as bank and compliance examiners in 2005. A new three-year career internship and training program was also initiated for entry-level Financial Institution Specialists to become familiar with and gain work experience in each of the Corporation's major business lines. As part of this program, new commissioning and certification programs will be implemented in addition to the current bank and compliance examination commission programs. The first set of employees to be trained in this new program came on board during the second half of 2005, and an additional 100 to 120 employees will begin training for this program in 2006. Plans will also be developed in 2006 for extending the CEP to mid-level FDIC employees by creating opportunities for selected employees to gain experience outside of their current areas of expertise.

Employee Learning and Growth. The Corporation emphasizes continuous employee learning and growth, primarily though through the programs administered by its Corporate University (CU). As noted above, CU will coordinate the design and development of new commissioning and certification programs in 2006 in conjunction with the continuing implementation of the CEP. During the second half of 2006, CU will also implement a new program of Personal Learning Accounts that will give employees an increased role in planning for their own career development and provide substantially increased funding for individual employee training. Employees will have greatly expanded access to specialized technical and professional training, and additional emphasis will be placed on the sponsorship of industry-recognized professional certifications for employees.

Leadership Development Program. The FDIC's ability to successfully address many challenges throughout its history has been largely attributable to the strength of its career leadership. The Corporation will implement in 2006 a formal new Leadership Development Program that will draw upon the "best practices" in use in other organizations to develop and maintain leadership competencies that are aligned with the Corporation's key business strategies as well as its human resource and succession management programs. The program will initially focus on the development of high-performing, high-potential supervisors and managers by giving them training and work experiences that will equip them to fill potentially critical executive-level positions throughout the organization when they become vacant. This program is part of an overall corporate focus on succession management to ensure that the FDIC has the skills and leadership that its needs to deal with the fast-changing financial services industry over the next decade, when many of its most experienced executives and managers are projected to retire.

Succession Management Program. The FDIC will have the opportunity over the next decade to substantially reshape its workforce in conjunction with the projected retirements of a large number of long-serving employees. The downsizing that has occurred over the past 12 years has resulted in limited hiring of new employees. This will change as the FDIC moves beyond downsizing and begins to fill positions as they become vacant. The Corporation will begin development and implementation of a comprehensive succession management program in 2006. That program will include strategies to ensure that the FDIC's workforce has the skills and expertise needed to successfully address its mission responsibilities in the future and to maintain its leadership role in the financial regulatory community. Key positions will be identified, and replacement strategies for each will be developed.

New Compensation and Benefits Agreement. In early 2006, the Corporation finalized and began implementation of a new compensation agreement with its employee union. The new agreement ensures that the Corporation's pay and benefits programs for all of its employees will continue to be among the best in the federal government. Under the new agreement, refinements will continue to be made to the FDIC's established pay-for-performance program under which individual employee pay increases are linked to individual performance and contributions.

Management of Financial Resources

The FDIC's operational expenses are largely paid from the insurance funds, and the Corporation always seeks to operate in an efficient and cost effective manner in fulfillment of its fiduciary responsibility to the funds. To that end, the Corporation engages in a rigorous planning and budgeting process that is designed to ensure that budgeted resources are properly aligned with projected workload and business priorities.

Alignment of Workload and Staffing. Approximately 60 percent of the Corporation's annual operating expenses are for salaries and benefits for FDIC employees. For that reason, a careful review of workload and staffing is a central component of the annual planning and budget process. Authorized staffing at year-end 2006 will drop to 4,596 from 4,751 at year-end 2005. This will substantially complete the downsizing that was necessary due to the completion of work emanating from the banking and thrift crises of the late 1980s and early 1990s. However, the Corporation will continue to actively manage its staffing on an ongoing basis to respond to significant changes in workload and new developments within the banking industry. The Corporation has exhibited remarkable self-discipline in this area over the past 12 years. Since mid-1993, FDIC staffing has declined by 80 percent, from approximately 23,000 (including employees assigned to the Resolution Trust Corporation) to about 4,600 today.

Managing Facility-Related Costs. Leasing and other facility-related costs are a major expense for the Corporation. In 2003, the Corporation initiated a major expansion of its Seidman Center facility in Arlington, Virginia, in order to reduce its headquarters facilities costs. By the end of the first quarter of 2006, the Phase II construction of that facility will be substantially completed, and approximately 800 employees will be relocated from leased facilities in downtown Washington, D.C., to the expanded facility. This initiative will save the Corporation an estimated $78 million (net present value) over 20 years compared to the projected cost of current leasing agreements.

Enhanced Cost Management Program. The FDIC will implement an enhanced cost-management program in 2006 that will provide managers with additional cost information, including the fully loaded cost of key business processes. It will also continue to benchmark the cost of selected business processes with those of peer organizations and will continue to explore the use of performance scorecards to assess performance against appropriate cost, timeliness, quality and customer service standards.

Information Technology Management

Information technology (IT) resources are one of the most valuable assets available to the FDIC in fulfilling its corporate mission. The FDIC operates a nationwide computing network and maintains approximately 282 application systems through which its employees perform their duties. For the past several years, the Corporation has been engaged in a major effort to transform and improve its IT program. This effort will continue in 2006. Some major components of that effort are outlined below.

Managing IT Costs. The Corporation is committed to using information technology to improve the operational efficiency of its business processes. It has made great strides in improving the capital planning and investment management (CPIM) process for IT. The CPIM is overseen by the Capital Investment Review Committee (CIRC), chaired jointly by the Chief Information Officer (CIO) and the Chief Financial Officer (CFO). Under the CPIM, investments in IT will continue to be evaluated on the basis of their impact on the effectiveness and/or efficiency of the FDIC's mission-critical functions. Proposals for new IT investments will be considered against gaps in current capabilities. Several major IT investment projects were completed in 2005. The largest remaining project still underway is the Asset Servicing Technology Enhancement Project (ASTEP). The focus in 2006 will be on the development of ASTEP as well as completion of planning for a new Claims Administration System to support the receivership management program.

Enhanced Enterprise Architecture (EA) Program. The FDIC seeks to maintain an information technology (IT) infrastructure and architecture that is reliable, adaptable, scalable, and responsive to changing business and technological requirements. In 2006, the EA Program will continue an effort begun in 2004 to reduce overlapping and duplicative processes, applications, and technologies while providing IT solutions that seamlessly meet business needs. Based on an evaluation of the best methods for delivering business functionality, the Corporation has chosen a service-oriented architecture approach for developing applications. ASTEP will be one of the first applications developed with this approach. A multi-year effort will also be initiated in 2006 to reduce the number of computing platforms that the FDIC maintains in order to reduce complexity and cost while increasing agility and scalability. In addition, the FDIC will update its EA blueprint, which defines the various business operations, the information necessary to operate, and the technologies necessary to support these business operations.

Enhanced Corporate Privacy Program. The FDIC has a strong commitment to protecting the security of sensitive customer information that it receives from financial institutions in the conduct of business. Similarly, protecting sensitive personal information on FDIC employees or contractors is also vitally important. The FDIC's Enterprise Architecture Board has analyzed all electronic and printed reports that contain sensitive data in order to determine whether such information needs to be collected and what additional safeguards may be necessary to protect the data used in FDIC electronic applications. The FDIC will continue to enhance its corporate privacy program through a variety of methods in 2006, including updates to the Privacy Impact Assessment template, the System of Record notices, and existing privacy directives, policies and Web site references, where appropriate.

Enhanced Information Security Program. The FDIC's information security program seeks to proactively assure the integrity, confidentiality, and availability of corporate information. This requires an ongoing commitment by employees throughout the organization. In 2006, the information security program will continue to provide an ongoing cycle for assessing risks, developing and implementing effective security procedures, and monitoring the effectiveness of those procedures. Priority emphasis will be given to addressing the information security concerns identified during the Government Accountability Office's audit of the FDIC's 2005 financial statements. In addition, the Corporation will continue to adapt its IT security program to changing regulatory and National Institute of Standards and Technology guidance. The self-assessment program will be expanded to address off-site contractors and in-depth application assessments. New initiatives will include upgrades to the FDIC's public key infrastructure (PKI) services, 24x7 perimeter monitoring, active wireless network detection, and new laptop encryption software.

Implementation of New E-Government Strategy: The FDIC strives to be a leader in the use of e-Government within the federal government and has made the expanded use of e-Government services a major corporate priority. Through its e-Government strategy, the Corporation is seeking to decrease paperwork, reduce the time required to process business transactions, increase productivity, retire obsolete systems, and reduce costs. The FDIC completed development of an e-Government Strategic

Plan in 2005 that defined an ambitious set of e-Government initiatives to be pursued during the 2006-2010 period. The FDIC previously implemented an e-Government portal (FDIC*connect*) for transactions with insured financial institutions and a new online subscription service for e-mail notification and announcements concerning information about the FDIC, the financial services industry, and new products and publications offered by the FDIC. During 2006, the Corporation plans to implement an updated version of the Estimated Deposit Insurance Estimator (EDIE), an enhanced system to manage the receipt and response to banker and public queries about the FDIC's deposit insurance and consumer protection programs; and continued enhancements to the Federal Financial Institutions Examination Council's Central Data Repository (CDR) application for the processing of Call Reports. In 2006, the FDIC will begin conversion of the Summary of Deposits (SOD) Data Validation System into the CDR (to be completed in 2007). Initially, SOD data will continue to be collected through FDIC*connect*. The FDIC also plans to expand the distribution of Call Report data to include additional time frames using the XBRL open standards.

Enterprise Risk Management

As an integral part of its stewardship of the insurance funds, the FDIC has established and maintains a comprehensive risk management and internal control program. This program is continuously re-evaluated to ensure its efficiency and effectiveness. In 2006, the FDIC will continue to employ an enterprise risk management approach to identifying and analyzing risks on an integrated, corporate-wide basis. The focus will be on directing resources to the areas of greatest risk. Where appropriate, the FDIC will also continue to conduct regular internal control reviews and testing to mitigate identified risks and to verify that corrective actions are effective.

Emergency Preparedness Program. In 2006, the FDIC will continue to strengthen and refine its Emergency Preparedness Program, which includes an Emergency Response Plan (ERP) and a Business Continuity Plan (BCP). Major initiatives will include the development of computer-based instruction on emergency preparedness for all employees; further expansion of a new emergency notification system to include deployment of the system to the regional offices; revision of both the ERP and BCP to take into account the expansion of the FDIC's Seidman Center facility; and participation in the Department of Homeland Security's government-wide "Forward Challenge 2006" and other simulation exercises.

APPENDIX

Program Resource Requirements

The FDIC's Planning Process

Program Evaluation

Interagency Relationships

Coordination with Other Federal Bank Regulatory Agencies

External Factors

Performance Results, 2001 - 2005

Program Resource Requirements

The FDIC budget is developed in a manner that recognizes its three programs of Insurance, Supervision, and Receivership Management. The following chart presents the budgetary resources the FDIC plans to expend in its programs during 2006 to pursue the strategic goals and objectives and the annual performance goals set forth in this Plan, and to carry out other program-related activities. The costs are fully loaded to reflect each program's share of common support services provided by the Corporation.

Supervision	$560,740,328
Insurance	$165,511,253
Receivership Management	$184,813,292
Subtotal	$911,064,873
General & Administrative Expenses	$148,060,649
TOTAL	$1,059,125,522

The FDIC's Planning Process

The FDIC has a long-range strategic plan that identifies strategic goals and objectives for its three major programs (Insurance, Supervision, and Receivership Management). The plan is reviewed and updated every three years. The Corporation also develops Annual Performance Plans that identify annual goals, indicators, and targets for each strategic objective.

In developing its Strategic and Annual Performance Plans, the FDIC uses an integrated planning process under which guidance and direction are provided by senior management and plans and budgets are developed with input from program personnel. Business requirements, industry information, human capital, technology, and financial data are considered in preparing annual performance plans and budgets. Factors influencing the FDIC's plans include changes in the financial services industry, program evaluations and other management studies, and prior period performance.

The FDIC's strategic goals and objectives and its annual performance goals, indicators, and targets are communicated to its employees via the FDIC's internal website and through internal communication mechanisms, such as newsletters and staff meetings. The Corporation also establishes on an annual basis additional "stretch" objectives that further challenge FDIC employees to pursue strategic initiatives and results. FDIC pay and award/recognition programs are structured to reward employee contributions to the achievement of the Corporation's annual objectives.

Throughout the year, progress reports are reviewed by FDIC senior management. After the year ends, the FDIC submits an Annual Report to the Congress that compares actual performance to the annual performance goals. This report is also posted on the FDIC's website, www.fdic.gov.

Program Evaluation

Program evaluations are important tools and, potentially, critical sources of information for ensuring that goals are reasonable, strategies for achieving goals are effective, and corrective actions are taken, as necessary, in program operations. Evaluations are also a mechanism to determine whether a program has clearly defined goals and well-developed measures of program outcomes. Results of program evaluations are included in the FDIC Annual Report and are used to revise future annual performance plans and division- and office-level operating plans. Program evaluation results are also used as input to the strategic and annual performance plans submitted to the Congress.

The FDIC's Office of Enterprise Risk Management (OERM) has primary responsibility for performing evaluations of the Corporation's programs. This role is independent of the program areas; however, program evaluations are interdivisional, collaborative efforts and they involve management and staff from the affected division(s) and office(s). Such participation is critical in order to fully understand the program being evaluated and to give the division(s) and office(s) a stake in the process.

During 2005, program evaluations were performed on major components of DSC's supervisory activities, particularly regarding how the FDIC ensures that: 1) supervised institutions appropriately manage risk; 2) supervised institutions comply with consumer protection, CRA and fair lending requirements; and 3) consumers have access to easily understood information about their rights and disclosures due them under consumer protection and fair lending laws. During 2006, considerable corporate resources will be devoted to implementing both program changes necessitated by Deposit Insurance Reform and the several changes in the automated systems supporting related activities. In addition, OERM will lead or participate in program evaluation activities in such areas as: risk management oversight on the development of new automated systems supporting our major programs; determining the continuing effectiveness of program areas that experienced significant down-sizing in 2005; continuing the implementation of balanced scorecards throughout the Corporation; and continuing our participation in performance management and monitoring efforts at the Division/Office level.

Interagency Relationships

Basel Committee on Banking Supervision

The FDIC participates on the Basel Committee on Banking Supervision, a forum for international cooperation on matters relating to financial institution supervision. The Committee promotes harmonization by issuing "sound practices" papers and developing supervisory standards to which its members voluntarily adhere. The Basel Committee on Banking Supervision aims to improve the consistency of capital regulations internationally, make regulatory capital more risk sensitive, and promote enhanced risk-management practices among large, internationally active banking organizations. The Basel II Capital Accord is an effort by international banking supervisors to update the original international bank capital accord (Basel I), which has been in effect since 1988.

Interagency Country Exposure Risk Committee

The Interagency Country Exposure Risk Committee members - FDIC, the Federal Reserve Bank (FRB), and Office of the Comptroller of the Currency (OCC) - are responsible for providing an objective opinion concerning the degree of transfer risk that is inherent in the cross-border and cross-currency lending by U.S. financial institutions.

Shared National Credit Program

The FDIC participates with the other federal financial institutions in the Shared National Credit Program, an interagency effort to perform a uniform credit review of financial institution loans that exceed $20 million and are shared by three or more financial institutions.

Joint Agency Task Force on Discrimination in Lending

The FDIC participates on the Joint Agency Task Force on Discrimination in Lending along with the other federal financial institution agencies, NCUA, the U.S. Department of Housing and Urban Development, the Office of Federal Housing Enterprise Oversight, the U.S. Department of Justice (DOJ), the Federal Housing Finance Board, and the Federal Trade Commission. The agencies exchange information about fair lending issues, examination and investigation techniques, interpretations of the statute and regulations, and case precedents.

Antiterrorism, Fraud and Money Laundering Groups

The FDIC works with the Department of Homeland Security and the Office of Cyberspace Security through the Finance and Banking Information Infrastructure Committee (FBIIC) on efforts to improve the reliability and security of the financial industry's infrastructure. Other members of FBIIC include the Commodity Futures Trading Commission, FRB, National Credit Union Administration (NCUA), OCC, Office of Thrift Supervision (OTS), the Securities and Exchange Commission (SEC), the U.S. Department of the Treasury, and the National Association of Insurance Commissioners.

The FDIC also participates on the Supervisory Emergency Communications Working Group of the Federal Financial Institution Examination Counsel (FFIEC). This interagency group is a subcommittee of the FFIEC's Supervision Task Force, and it is charged with maintaining FFIEC Supervisory Emergency Communication Protocols that focus on communication during times of emergency.

The FDIC participates in several other interagency groups to assist in efforts to combat fraud and money laundering and to implement the USA PATRIOT Act. These groups include:

- The National Bank Fraud Working Group sponsored by the Department of Justice (DOJ);
- The National Money Laundering Strategy Steering Committee, headed by the DOJ and Treasury Department;
- The National Bank Secrecy Act Advisory Group, a public/private partnership of agencies and organizations that meet to discuss strategies and industry efforts to curb money laundering; and
- Working groups sponsored by Treasury to develop regulations to implement sections of the USA PATRIOT Act that are applicable to insured financial institutions.

Government Performance and Results Act Financial Institutions Regulatory Working Group

In support of the Government Performance and Results Act (GPRA), the interagency Financial Institutions Regulatory Working Group, composed of all five federal financial institution regulators (OTS, FRB, OCC, NCUA, and FDIC) was formed in October 1997. The Office of Federal Housing Enterprise Oversight, which supervises Freddie Mac and Fannie Mae, and the Treasury Department also participate. This group works to identify the general goals and objectives that cross these organizations and their programs and activities, as well as other general GPRA requirements.

Federal Trade Commission, National Association of Insurance Commissioners and the Securities and Exchange Commission

The Gramm-Leach-Bliley Act in 1999 permitted insured financial institutions to expand the products they offer to include insurance and securities. As a result, the FDIC coordinates its activities related to these new products, including privacy issues, with the Federal Trade Commission, National Association Insurance Commissioners, and Securities and Exchange Commission.

International Association of Deposit Insurers

The FDIC coordinates its international banking activities with a focus on building strong bi-lateral and multi-lateral relationships with foreign regulators and insurers, U.S. Government entities, and international organizations. The FDIC conducts technical assistance and outreach activities provided to foreign entities to enhance the development and maintenance of sound banking and deposit insurance systems. In addition to providing these ongoing activities in support of important economic development efforts worldwide, the FDIC plays a leadership role in the International Association of Deposit Insurers (IADI) and participate in associated activities.

Economic Growth and Regulatory Paperwork Reduction Act

The FDIC leads the Economic Growth and Regulatory Paperwork Reduction Act (EGRPRA) project, an interagency initiative established by the federal financial institution regulatory agencies to review all regulations that impose a burden on the banking industry. Through the FFIEC, the FDIC, in conjunction with NCUA, OCC, and OTS, is conducting a review to identify and eliminate any regulatory requirements that are outdated, unnecessary or unduly burdensome, as mandated by EGRPRA.

Coordination with Other Federal Bank Regulatory Agencies

Below are the annual performance goals for 2006 that will require coordinated efforts with one or more of the federal banking agencies. The goals are listed by FDIC programs.

Insurance

Respond promptly to financial institution closings and emerging issues.

Identify and address risks to the insurance funds.

Maintain sufficient and reliable information on insured depository institutions.

Maintain and improve the deposit insurance system.

Provide educational information to insured depository institutions and their customers to help them understand the rules for determining the amount of insurance coverage on deposit accounts.

Supervision, Safety and Soundness

Conduct on-site risk management examinations to assess an FDIC-supervised insured depository institution's overall financial condition, management practices and policies, and compliance with applicable laws and regulations.

Take prompt and effective supervisory actions to address problems identified during the FDIC examination of FDIC-supervised institutions that receive a composite Uniform Financial Institutions Rating of "4" or "5" (problem institution).

Monitor FDIC-supervised insured depository institutions' compliance with formal and informal enforcement actions.

Increase industry and regulatory awareness of emerging/high-risk areas.

More closely align regulatory capital with risk in large or multinational banks.

Ensure that FDIC-supervised institutions that plan to operate under the Basel Capital Accord are meeting satisfactory progress toward making required qualifications standards.

Supervision, Consumer Protection	Provide effective outreach and technical assistance on topics related to the Community Reinvestment Act, fair lending, and community development. Meet the statutory mandate to investigate and respond to consumer complaints about FDIC-supervised financial institutions. Conduct comprehensive and compliance examinations in accordance with the FDIC's examination frequency policy. Take prompt supervisory actions and monitor all institutions rated a "4" or "5" for compliance to address problems identified during compliance examinations.
Receivership Management	Market failing institutions to all known qualified and interested potential bidders. Value, manage, and market assets of failed institutions and their subsidiaries in a timely manner to maximize net return. Manage the receivership estate and its subsidiaries toward an orderly termination. Conduct investigations into all potential professional liability claim areas in all failed insured depository institutions and decide, as promptly as possible, to close or pursue each claim, considering the size and complexity of the institution.

External Factors: The Economy and Its Impact on the Banking Industry

The economy and its impact on the banking industry could significantly affect the achievement of the 2006 annual performance goals, but are beyond the FDIC's control.

The economy's performance at the national and regional levels affects the way the banking industry carries out its business strategies and may affect the industry's overall performance. The U.S. business cycle tends to drive the performance of individual industry sectors, including agriculture, energy, commercial and residential real estate, manufacturing and services—all of which represent significant sources of loan growth and credit exposure for the banking industry. Overall business conditions and macroeconomic policies are key determinants of the inflation rate, domestic interest rates, the exchange value of the dollar, and equity market valuations, which in turn influence the lending, funding, and off-balance sheet activities of insured depository institutions.

Economic factors directly influence the financial performance of FDIC-insured institutions. Adverse economic conditions, such as a national recession, a regional economic downturn, or volatility in inflation and interest rates, may under certain conditions raise the risk profile of the industry or select groups of insured institutions and contribute to a higher incidence of failure and higher resolution costs.

Significant changes in the risk profiles of insured institutions may result in an acceleration of institutions' statutory examination frequency. A rise in institution failures would require experienced staff to handle closings on a priority basis. Adverse trends such as these could also slow the pace at which the FDIC markets assets and terminates receiverships. Under scenarios such as these, staff may need to be diverted from other FDIC activities to address these or other operational priorities.

The U.S. economic outlook remains positive for 2006. Despite the influence of two worse-than-normal hurricane seasons in 2004 and 2005, culminating in the devastation wrought by Katrina and Rita in 2005, the economy continued to grow near its historical average pace through year end. In fact, quarterly real GDP growth was unusually stable in the two years ending September 2005, averaging between 3.3 and 4.3 percent. The 2005 hurricanes resulted in a significant displacement of individuals and business activity from the Gulf Coast, but this displacement also acted to boost economic activity in neighboring areas, mitigating the overall effect at a national level. Consumer confidence fell sharply after the storms, but non-auto retail sales growth continued at a respectable pace through October. Auto sales fell sharply in August, before the hurricanes hit, and remained weak in September before turning down sharply again in October. Although this weakness in auto sales may be partially attributable to the hurricanes, it is also likely due to consumer fatigue following years of quite strong, incentive-stimulated auto sales.

The 2005 hurricanes were not without their nationwide effects. Most significantly, the hurricanes caused a surge in energy prices during the late summer and early fall. Even so, energy prices had eased back to early 2005 levels by late November owing to the combination of a warmer than normal fall, a seasonal drop in transportation fuel demand, increased energy imports, and a return of domestic energy production shut down by the hurricanes. Barring any further disruptions to energy supplies, economic growth should benefit in 2006 from this easing in energy prices. Furthermore, rebuilding along the Gulf Coast is expected to boost economic activity at the margin and help to maintain the pace of economic growth near its current level.

This positive outlook is tempered by a number of potential risks. In the short-term, energy prices may continue to be volatile, and natural gas prices could spike if the winter heating season turns out to be colder than normal. Intermediate-term risks to the economic outlook generally revolve around the boom in home prices and continued U.S. dependence on inflows of foreign capital.

After a protracted housing boom, lofty home prices remain a vulnerability in several major cities in California, the Northeast, and southern Florida. While the increase in housing prices has not been uniform across the nation, low interest rates and non-traditional mortgage financing vehicles have allowed more borrowers to be active in markets experiencing rapid price increases. U.S. homeowners have taken on some $1.7 trillion in new mortgage debt over the past two years through home purchases and by extracting equity from homes they already own. The amount of equity extracted from homes has even begun to rival annual gains in U.S. after-tax personal income. Although analysts discount the possibility of a nationwide housing bust, rising interest rates are likely to make housing less affordable for new buyers. It is not unlikely that some of the hottest coastal markets could experience home price declines. But even a slowdown from the recent strong appreciation in home prices would likely limit the ability of homeowners to trade up or extract equity from their homes, thereby slowing housing market activity, mortgage lending volumes and consumer spending. Another effect could be to boost levels of problem mortgage loans from current, historically low levels.

Increased borrowing by the U.S. household and government sectors in recent years has been facilitated by large inflows of capital from overseas investors. The U.S. current account deficit totaled $668 billion in 2004, and appears likely to exceed that level in 2005. In one sense, the popularity of U.S. Treasury and agency securities among foreign official and private investors reflects their confidence in the ongoing stability of the U.S. economy and financial markets. However, the sheer volume of these global financial imbalances creates concerns that foreign investors will eventually seek to rebalance their portfolios toward non-dollar assets, thereby placing downward pressure on the dollar and upward pressure on U.S. inflation and interest rates. Given the strong and reasonably balanced growth the U.S. economy is enjoying at present, analysts continue to look to such shocks as potential sources of instability in the intermediate-term outlook.

Overall, the banking industry remains healthy, with favorable earnings, strong credit quality, and capital ratios near historic highs. Industry profits are on target to reach another record. Industry profits through the first three quarters of 2005 were $99 billion, up from $87 billion for the first three quarters of 2004. The non-current loan ratio of 0.74 percent was the second lowest level in the 22 years that banks and thrifts have reported non-current loan amounts.

More than 90 percent of all insured institutions continue to meet or exceed the highest regulatory capital standards.

In the wake of this strong showing, many FDIC-insured institutions may be hard-pressed to sustain similar levels of earnings in 2006. Rising interest rates would be expected to curtail gains realized on securities sales. Also, the flattening yield curve, along with heightened competition for loans and deposits, has put downward pressure on the average net interest margin of FDIC-insured institutions. In addition, the industry's ability to further reduce expenses related to loan loss provisions could be limited, as most of the cyclical improvement in credit quality appears to have already been realized. In the third quarter of 2005, provisions for loan losses exceeded charge-offs for the first time in three years.

Commercial and industrial (C&I) loan growth slowed in the third quarter of 2005. The near-term outlook for commercial credit remains neutral to positive. While we note significant credit distress in certain industries, such as autos and airlines, those weaknesses must be balanced against the high profit margins that many other sectors currently enjoy. Nevertheless, the noticeable decline in commercial loan underwriting standards in recent quarters points to the likelihood that C&I credit losses will move higher in the intermediate to long term.

Commercial Real Estate (CRE) loan to equity capital concentrations have risen sharply since 1998 and are now above levels seen in the last cycle of the late 1980s. While the rising prevalence of such concentrations raises some credit risk concerns, we also note that risk selection and underwriting in this cycle appear to be markedly improved from the late-1980s cycle, when commercial real estate losses contributed to a number of bank and thrift failures. As in other loan categories, credit losses in commercial real estate remain at historically low levels at present. While analysts note generally improving conditions in many CRE markets, they also note that rising interest rates will increase debt service costs for borrowers and could also have an adverse effect on property valuations as market cap rates rise.

Innovations in mortgage lending products are receiving greater attention from a risk management perspective. There was a significant shift toward non-traditional mortgage loan products in 2004 and 2005 as lenders have sought to meet volume and revenue growth targets. Among these fast-growing loan products are subprime and low-documentation loans, interest-only loans designed to minimize monthly payments, and "payment option" mortgages that also give borrowers the option of skipping payments and adding accrued interest to their loan balances. While these have been useful in helping borrowers cope with rising home prices, they raise concerns that credit losses on poorly underwritten loans could increase significantly as interest rates rise and the home price boom eventually cools. Any such increase in mortgage loan losses is not likely to materialize until recently originated loans begin to season in 2006 and 2007. In addition, the ultimate impact of higher mortgage loan losses, should they materialize, will be mitigated to the extent that securitization has helped to spread mortgage credit risks across many diverse holders throughout the financial system.

Overall, 2006 should be another good year for the economy and for the banking industry. The industry's solid capital position, which allowed it to withstand the 2001 recession and subsequent period of weakness, should help to limit both the number of expected failures and the cost of resolving any failures that do arise. The number of troubled institutions declined dramatically during the early 1990s and remains very low. As of September 2005, only 68 institutions, representing 0.20 percent of industry assets, were classified by the FDIC as "problem" institutions. This is the fewest number of problem institutions in the 35 years for which problem institution statistics are available. The FDIC's deposit insurance funds stood at a record-high combined level of $48.4 billion. These funds, together with a positive economic outlook and the overall financial strength of FDIC-insured institutions, promise another year of stability ahead for the banking industry and its insured depositors.

Performance Results, 2001-2005

Performance Results The following is a discussion of performance results of comparable annual performance goals that the FDIC has implemented over the past several years. The performance results achieved by implementing the 2001-2005 annual goals are noted below.

Depositor Payouts in Instances of Failure

2006 Goal - Respond promptly to financial institution closings and emerging issues.

2005 Performance – There were no financial institution closings in 2005. Congress substantially completed work on Deposit Insurance Reform in 2005. (Final enactment occurred in February 2006.)

2004 Performance - Timely payments were made to all depositors of the four insured depository institutions that failed in 2004. The Senate did not act on House-passed legislation on deposit insurance reform.

2003 Performance - Timely payments were made to all depositors of the three insured depository institutions that failed in 2003. Legislation on deposit insurance reform was passed in the House and was pending in the Senate.

2002 Performance - Timely payments were made to all depositors of the 11 insured depository institutions that failed in 2002. Legislation on deposit insurance reform was introduced in the House and the Senate.

2001 Performance - Timely payments were made to all depositors of the four insured depository institutions that failed in 2001.

Risk Classifications

2006 Goal - Maintain and improve the deposit insurance system.

2005 Performance – Identical deposit insurance reform bills were passed by the Senate in 2005 and the House in early 2006. The President signed the bill into law on February 8, 2006. The Bank Insurance Fund (BIF) reserve ratio declined from 1.25 percent as of September 30, 2005, the statutory minimum ratio, to 1.23 percent as of December 30, 2005. The Savings Association Insurance Fund (SAIF) reserve ratio also declined to 1.29 percent at December 30, 2005 from 1.30 percent at September 30, 2005. Under the new law, the two insurance funds will be merged no later than July 1, 2006. The reserve ratio of a combined fund would have been 1.26 percent at year-end 2005.

2004 Performance - The FDIC completed implementing enhancements to the reserving process and methodology in March 2004. The reserve ratio was maintained at or above the statutory ratio of 1.25 percent.

2003 Performance - The reserve ratio was maintained at or above the statutory ratio of 1.25 percent. Chairman testified before the Senate Banking Committee in support of deposit insurance reform.

*2002 Performance – The r*eserve ratio was maintained at or above the statutory ratio of 1.25 percent. Chairman testified before the Senate Banking Committee in support of deposit insurance reform.

2001 Performance –The reserve ratio was maintained. The FDIC published its final recommendations for deposit insurance reform.

Risk Identification and Reporting

2006 Goal - Identify and address risks to the insurance funds.

2005 Performance – Risk assessments of all Large Insured Depository Institutions (LIDIs) were completed in compliance with program requirements.

2004 Performance - Significant progress was made in improving the accuracy and efficiency of off-site risk identification models. Risk assessments of all Large Insured Depository Institutions (LIDIs) were completed in compliance with program requirements. *FDIC Outlook* publications, *FYI* electronic bulletins, and issues of the *Quarterly Banking Profile* were published, addressing various banking topics.

2003 Performance - Significant progress was made in improving the accuracy and efficiency of off-site risk identification models. Risk assessments of all LIDIs were completed in compliance with program requirements.

2002 Performance - Significant progress was made in improving the accuracy and efficiency of off site risk identification models. Risk assessments of all LIDIs were completed in compliance with program requirements.

2001 Performance - Developed several approaches to credit risk that will be incorporated into the Virtual Supervisory Information On the Net (ViSION) system. Risk assessments of all LIDIs were completed in compliance with program requirements.

2006 Goal - Maintain sufficient and reliable information on insured depository institutions (a new goal in 2003).

2005 Performance – The Central Data Repository (CDR) system was successfully implemented on October 1, 2005 to process the September 2005 Reports of Condition and Income.

2004 Performance – Substantial progress was made on the development of the CDR. Phase I of the CDR is expected to be implemented in the second half of 2005.

2003 Performance - Quarterly financial information was collected, processed, and maintained in a database for FDIC-insured institutions.

2006 Goal - Provide educational information to insured depository institutions and their customers to help them understand the rules for determining the amount of insurance coverage on deposit accounts (a new goal in 2003).

2005 Performance – Completed development of a major update of the FDIC's Electronic Deposit Insurance Estimator (EDIE) for consumers. EDIE is an Internet application located on FDIC's website that calculates insurance coverage for users' deposit accounts at an insured institution.

2004 Performance – The utility of educational tools developed for bankers and consumers was completed by year-end 2004.

2003 Performance - EDIE (Banker version) was enhanced.

Risk Management, Safety and Soundness

2006 Goal - Conduct on-site risk management examinations to assess an FDIC-supervised insured depository institution's overall financial condition, management practices and policies, and compliance with applicable law and regulations.

2005 Performance – Conducted 2,399 required risk management examinations in accordance with FDIC policy.

2004 Performance - Conducted 2,515 required safety and soundness examinations in accordance with FDIC policy.

2003 Performance - Conducted 2,421 required safety and soundness examinations in accordance with FDIC policy.

2002 Performance - Conducted 2,534 required safety and soundness examinations in accordance with FDIC policy.

2001 Performance - Conducted 2,575 required safety and soundness examinations in accordance with FDIC policy.

2006 Goal - More closely align regulatory capital with risk in large or multinational banks.

2005 Performance - Final results of the Quantitative Impact Study (QIS-4) show a 15.5 percent decline in minimum regulatory capital from current levels, with a wide dispersion in results that was mostly due to banks' internal measurement of risk, rather than actual risk.

This goal was new for 2005. There were no applicable performance results for 2000-2004.

2006 Goal - Increase industry and regulatory awareness of emerging/high-risk areas.

2005 Performance – The Anti-Money Laundering (AML) goal met its targets and the advanced training for all BSA/AML subject matter experts has been accomplished.

This goal was new for 2005. There were no applicable performance results for 2001-2004.